



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan *Office of the Auditor General* **REPORT SUMMARY**

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
59-100-05

Michigan Department of Transportation

October 1, 2002 through September 30, 2004

Released:
June 2005

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Michigan Department of Transportation's (MDOT's) financial statements.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance and Other Matters

Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 4 programs as major programs and issued 4 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We did not identify any material weaknesses in internal control over major programs. However, we did identify reportable conditions (Findings 1 and 2).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 1 and 2).

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Systems of Accounting and Internal Control:

We determined that MDOT was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
20.106	Airport Improvement Program	Unqualified
20.205	Highway Planning and Construction	Unqualified
20.500	Federal Transit: Capital Investment Grants	Unqualified
20.509	Formula Grants for Other Than Urbanized Areas	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 30, 2005

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Ms. Gloria J. Jeff, Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of Transportation (MDOT) for the period October 1, 2002 through September 30, 2004.

This report contains our report summary; our independent auditor's report on the financial statements; and the MDOT financial statements, notes to the financial statements, and supplemental financial statements and schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains MDOT's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS



STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Ms. Gloria J. Jeff, Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

We have audited the financial statements of the Michigan Department of Transportation as of and for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

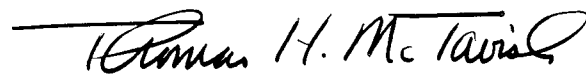
As described in Note 1, the financial statements present only the Michigan Department of Transportation and do not purport to, and do not, present fairly the financial position of the State of Michigan or its special revenue and debt service funds as of September 30, 2004 and September 30, 2003 and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Department of Transportation as of September 30, 2004 and September 30, 2003 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2005 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial statements and schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a horizontal line extending from the left side of the first name.

Thomas H. McTavish, C.P.A.
Auditor General
March 31, 2005

MICHIGAN DEPARTMENT OF TRANSPORTATION

Combined Balance Sheet

As of September 30

(In Thousands)

	Special Revenue		Debt Service		Totals (Memorandum Only)	
	2004	2003	2004	2003	2004	2003
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 966	\$ 151	\$	\$	\$ 966	\$ 151
Equity in common cash	478,953	670,490	61	347	479,015	670,837
Receivables (Note 3):						
Taxes, interest, and penalties (at net)	119,596	117,623			119,596	117,623
Federal aid	156,655	164,639			156,655	164,639
Local units	57,466	51,023			57,466	51,023
Other funds and component units	905,195	531,420			905,195	531,420
Miscellaneous	14,048	15,948			14,048	15,948
Inventories	5,921	5,594			5,921	5,594
Total Current Assets	<u>\$ 1,738,801</u>	<u>\$ 1,556,888</u>	<u>\$ 61</u>	<u>\$ 347</u>	<u>\$ 1,738,862</u>	<u>\$ 1,557,235</u>
Noncurrent Assets:						
Receivables:						
Taxes	\$ 1,381	\$ 1,615	\$	\$	\$ 1,381	\$ 1,615
Local units	42,720	41,047			42,720	41,047
Advances to other funds	21,689	25,984			21,689	25,984
Land contracts	1,908	3,847			1,908	3,847
Miscellaneous	1,766	2,161			1,766	2,161
Total Noncurrent Assets	<u>\$ 69,465</u>	<u>\$ 74,653</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 69,465</u>	<u>\$ 74,653</u>
Total Assets	<u>\$ 1,808,265</u>	<u>\$ 1,631,541</u>	<u>\$ 61</u>	<u>\$ 347</u>	<u>\$ 1,808,326</u>	<u>\$ 1,631,888</u>
LIABILITIES AND FUND BALANCES						
Current Liabilities:						
Warrants outstanding	\$ 17,902	\$ 48,030	\$	\$ 321	\$ 17,902	\$ 48,351
Accounts payable	470,829	441,069	61	26	470,890	441,095
Contract reserve payable	10,350	13,813			10,350	13,813
Due to other funds and component units (Note 10)	91,437	55,013			91,437	55,013
Deposits, permits, and other liabilities	490	643			490	643
Deferred revenue	50,339	58,519			50,339	58,519
Total Current Liabilities	<u>\$ 641,346</u>	<u>\$ 617,087</u>	<u>\$ 61</u>	<u>\$ 347</u>	<u>\$ 641,407</u>	<u>\$ 617,434</u>
Long-Term Liabilities:						
Deferred revenue	17,243	19,561			17,243	19,561
Advances from other funds	21,689	25,984			21,689	25,984
Total Liabilities	<u>\$ 680,277</u>	<u>\$ 662,632</u>	<u>\$ 61</u>	<u>\$ 347</u>	<u>\$ 680,339</u>	<u>\$ 662,979</u>
Fund Balances (Note 1f):						
Reserved for encumbrances	\$ 60,134	\$ 69,341	\$	\$	\$ 60,134	\$ 69,341
Reserved for unencumbered restricted revenue balances	203,157	242,386			203,157	242,386
Reserved for unencumbered capital outlay and work projects	399,706	238,987			399,706	238,987
Reserved for revolving loans	28,940	27,854			28,940	27,854
Reserved for construction and debt service	70,272	55,247			70,272	55,247
Reserved for noncurrent assets	28,683	29,217			28,683	29,217
Total Reserved	<u>\$ 790,892</u>	<u>\$ 663,033</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 790,892</u>	<u>\$ 663,033</u>
Unreserved	<u>337,096</u>	<u>305,876</u>			<u>337,096</u>	<u>305,876</u>
Total Fund Balances	<u>\$ 1,127,988</u>	<u>\$ 968,909</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,127,988</u>	<u>\$ 968,909</u>
Total Liabilities and Fund Balances	<u>\$ 1,808,265</u>	<u>\$ 1,631,541</u>	<u>\$ 61</u>	<u>\$ 347</u>	<u>\$ 1,808,326</u>	<u>\$ 1,631,888</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Years Ended September 30
(In Thousands)

	Special Revenue		Debt Service		Totals (Memorandum Only)	
	2004	2003	2004	2003	2004	2003
REVENUES						
Taxes	\$ 2,079,758	\$ 2,024,694	\$	\$	\$ 2,079,758	\$ 2,024,694
Licenses and permits	70,893	75,217			70,893	75,217
Federal aid	941,219	866,308			941,219	866,308
Local participation	130,262	123,732			130,262	123,732
Interest earnings	13,321	16,344			13,322	16,344
Nonoperating revenue - bridges	2,142	2,122			2,142	2,122
Miscellaneous revenue	43,692	48,448			43,692	48,448
Total Revenues	\$ 3,281,288	\$ 3,156,863	\$ 0	\$ 0	\$ 3,281,288	\$ 3,156,863
EXPENDITURES						
Administration and Operations:						
Administration and maintenance	\$ 403,907	\$ 379,529	\$	\$	\$ 403,907	\$ 379,529
Bus operating assistance grants	172,628	170,449			172,628	170,449
Other grants	1,237,611	1,135,258			1,237,611	1,135,258
Airport development	129,759	111,363			129,759	111,363
Nonoperating expenditures - bridges	2,078	2,051			2,078	2,051
Trust fund construction activity	265,507	281,712			265,507	281,712
Capital lease payments	160	160			160	160
Costs of issuance			881		881	0
Bond principal retirement			40,220	37,875	40,220	37,875
Bond interest and fiscal charges			65,244	59,622	65,244	59,622
Total Administration and Operations	\$ 2,211,650	\$ 2,080,521	\$ 106,345	\$ 97,497	\$ 2,317,995	\$ 2,178,018
Capital Outlay:						
Roads and bridges	\$ 973,529	\$ 1,026,250	\$	\$	\$ 973,529	\$ 1,026,250
Other capital outlay	11,783	9,636			11,783	9,636
Total Capital Outlay	\$ 985,312	\$ 1,035,886	\$ 0	\$ 0	\$ 985,312	\$ 1,035,886
Total Expenditures	\$ 3,196,962	\$ 3,116,407	\$ 106,345	\$ 97,497	\$ 3,303,307	\$ 3,213,904
Excess of Revenues Over (Under) Expenditures	\$ 84,326	\$ 40,457	\$ (106,345)	\$ (97,497)	\$ (22,019)	\$ (57,040)
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$ 871,063	\$ 808,940	\$	\$	\$ 871,063	\$ 808,940
Grants and transfers from other funds						
and component units	175,780	186,809	105,464	97,497	281,244	284,306
Proceeds from sale of capital assets	6,903				6,903	0
Proceeds from bonds and notes issued	185,710	35,020	103,450		289,160	35,020
Premium on bonds issued	15,535	1,362	9,736		25,270	1,362
Total Other Financing Sources	\$ 1,254,991	\$ 1,032,131	\$ 218,650	\$ 97,497	\$ 1,473,640	\$ 1,129,628
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$ 871,063	\$ 808,940	\$	\$	\$ 871,063	\$ 808,940
Grants and transfers to other funds						
and component units (Note 10)	203,710	304,251			203,711	304,251
Debt service	105,464	104,455			105,464	104,455
Payment to refunded bond escrow agent			112,305		112,305	0
Total Other Financing Uses	\$ 1,180,237	\$ 1,217,647	\$ 112,305	\$ 0	\$ 1,292,542	\$ 1,217,647
Excess of Other Financing Sources Over (Under) Other Financing Uses	\$ 74,753	\$ (185,516)	\$ 106,345	\$ 97,497	\$ 181,098	\$ (88,019)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 159,079	\$ (145,059)	\$ 0	\$ 0	\$ 159,079	\$ (145,059)
Fund balances - Beginning of fiscal year	968,909	1,113,968			968,909	1,113,968
Fund balances - End of fiscal year	\$ 1,127,988	\$ 968,909	\$ 0	\$ 0	\$ 1,127,988	\$ 968,909

The accompanying notes are an integral part of the financial statements.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Note 2)
Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

(Statutory/Budgetary Basis)	2004			2003		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes	\$ 2,079,758	\$ 2,079,758	\$ 0	\$ 2,024,694	\$ 2,024,694	\$ 0
Licenses and permits	70,893	70,893	0	75,217	75,217	0
Federal aid	724,369	724,369	0	652,702	652,702	0
Local participation	56,093	56,093	0	40,891	40,891	0
Interest earnings	9,806	9,806	0	10,565	10,565	0
Nonoperating revenue - bridges	2,142	2,142	0	2,122	2,122	0
Miscellaneous revenue	43,322	43,322	0	47,277	47,277	0
Total Revenues	<u>\$ 2,986,383</u>	<u>\$ 2,986,383</u>	<u>\$ 0</u>	<u>\$ 2,853,468</u>	<u>\$ 2,853,468</u>	<u>\$ 0</u>
EXPENDITURES AND ENCUMBRANCES						
Administration and Operations:						
Administration and maintenance	\$ 473,933	\$ 427,931	\$ 46,003	\$ 439,756	\$ 402,903	\$ 36,852
Bus operating assistance grants	174,630	174,628	2	171,472	171,470	2
Other grants	1,302,808	1,243,605	59,203	1,232,777	1,165,792	66,985
Airport development	131,625	131,462	163	113,844	112,515	1,328
Nonoperating expenditures - bridges	2,143	2,078	64	2,122	2,051	71
Total Administration and Operations	<u>\$ 2,085,139</u>	<u>\$ 1,979,704</u>	<u>\$ 105,435</u>	<u>\$ 1,959,970</u>	<u>\$ 1,854,731</u>	<u>\$ 105,239</u>
Capital Outlay:						
Roads and bridges	\$ 801,827	\$ 801,657	\$ 171	\$ 788,290	\$ 787,491	\$ 799
Other capital outlay	66,901	14,864	52,037	66,690	12,209	54,480
Total Capital Outlay	<u>\$ 868,728</u>	<u>\$ 816,521</u>	<u>\$ 52,208</u>	<u>\$ 854,980</u>	<u>\$ 799,700</u>	<u>\$ 55,279</u>
Total Expenditures and Encumbrances	<u>\$ 2,953,867</u>	<u>\$ 2,796,225</u>	<u>\$ 157,642</u>	<u>\$ 2,814,950</u>	<u>\$ 2,654,432</u>	<u>\$ 160,518</u>
Excess of Revenues Over (Under) Expenditures and Encumbrances	<u>\$ 32,515</u>	<u>\$ 190,158</u>	<u>\$ 157,642</u>	<u>\$ 38,518</u>	<u>\$ 199,036</u>	<u>\$ 160,518</u>
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$ 871,063	\$ 871,063	\$ 0	\$ 808,940	\$ 808,940	\$ 0
Grants and transfers from other funds and component units	162,788	162,788	0	175,605	175,605	0
Proceeds from sale of capital assets	6,903	6,903	0			
Total Other Financing Sources	<u>\$ 1,040,754</u>	<u>\$ 1,040,754</u>	<u>\$ 0</u>	<u>\$ 984,544</u>	<u>\$ 984,544</u>	<u>\$ 0</u>
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$ 896,795	\$ 871,063	\$ 25,732	\$ 813,014	\$ 808,940	\$ 4,074
Grants and transfers to other funds and component units	182,289	191,310	(9,021)	282,923	280,483	2,440
Debt service	112,598	105,464	7,134	116,001	104,455	11,546
Total Other Financing Uses	<u>\$ 1,191,681</u>	<u>\$ 1,167,837</u>	<u>\$ 23,844</u>	<u>\$ 1,211,938</u>	<u>\$ 1,193,878</u>	<u>\$ 18,060</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ (150,927)</u>	<u>\$ (127,082)</u>	<u>\$ 23,844</u>	<u>\$ (227,393)</u>	<u>\$ (209,334)</u>	<u>\$ 18,060</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	<u>\$ (118,412)</u>	<u>\$ 63,075</u>	<u>\$ 181,487</u>	<u>\$ (188,875)</u>	<u>\$ (10,298)</u>	<u>\$ 178,578</u>
RECONCILING ITEMS						
Encumbrances at September 30		\$ 60,134			\$ 69,341	
Funds not annually budgeted		<u>35,870</u>			<u>(204,103)</u>	
Net Reconciling Items		<u>\$ 96,004</u>			<u>\$ (134,762)</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ 159,079			\$ (145,059)	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>968,909</u>			<u>1,113,968</u>	
Ending balances		<u>\$ 1,127,988</u>			<u>\$ 968,909</u>	

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the financial position and the changes in financial position of the following funds administered by the Michigan Department of Transportation (MDOT) as of and for the fiscal years ended September 30, 2004 and September 30, 2003:

Special Revenue Funds

Michigan Transportation Fund

State Trunkline Fund

Comprehensive Transportation Fund

State Aeronautics Fund

Combined State Trunkline Bond Proceeds Fund

Combined Comprehensive Transportation Bond Proceeds Fund

Transportation Related Trust Fund

Debt Service Funds

Combined State Trunkline Bond and Interest Redemption Fund

Combined Comprehensive Transportation Bond and Interest Redemption Fund

These funds are a part of the State of Michigan's reporting entity and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The notes accompanying these financial statements relate directly to MDOT. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; and pension benefits and other postemployment benefits.

b. Joint Venture

On September 1, 2000, the International Bridge Authority paid off the 40-year bonds that financed the construction of the International Bridge at Sault Ste. Marie, Michigan. As a result, the International Bridge Authority was dissolved, and MDOT and the St. Mary's River Bridge Company (SMRBC) of Canada share ownership of the International Bridge. A

40-year intergovernmental agreement between MDOT and SMRBC went into effect on September 1, 2000. This agreement formed the Joint International Bridge Authority (JIBA) and the International Bridge Administration (IBA). The JIBA is a nonprofit organization with six members. The Governor of Michigan selected three members and three members were selected by SMRBC, which is controlled by the Minister of Transport. The IBA is made up of MDOT employees who are responsible for the administration, operation, repair, and improvement of the International Bridge. Revenue from bridge tolls covers the expenses of the IBA. Neither owner is required to provide financial support for the bridge.

A comparative analysis of the International Bridge Authority's audit periods ended December 31, 2003 and December 31, 2002 follows (in thousands):

	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Assets	\$ 3,877	\$ 3,332
Liabilities	\$ 828	\$ 950
Total Equity	\$ 3,050	\$ 2,382
Total Revenues and Other Sources	\$ 5,367	\$ 4,873
Total Expenditures and Other Uses	\$ 4,699	\$ 7,485
Excess of Revenues and Other Sources		
Over (Under) Expenditures and Other Uses	\$ 668	\$ (2,612)

c. Component Unit

The Mackinac Bridge Authority, a component unit of the State of Michigan, is reported on in the *SOMCAFR* and is not reported on in these financial statements. The Mackinac Bridge Authority separately issues its own audited financial statements. These statements may be obtained by directly contacting the Mackinac Bridge Authority at (906) 643-7600.

Further information regarding the relationship between MDOT and the Mackinac Bridge Authority is provided in Note 10 of this report.

d. Basis of Presentation

The financial transactions of MDOT are recorded in individual funds in the State's central accounting system. The accompanying financial statements present only MDOT. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial

position of the State of Michigan or its special revenue and debt service funds in conformity with generally accepted accounting principles. The various transportation funds are combined in the *SOMCAFR* into the governmental fund types described as follows:

Governmental Fund Types

Special Revenue Funds: This fund group includes operating funds that account for the proceeds of certain specific revenue sources, which are legally restricted for specified purposes.

Debt Service Funds: This fund group accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Totals (Memorandum Only)

Amounts in the "Totals (Memorandum Only)" columns represent summations of the fund types and are presented only for analytical purposes. The summations include interfund transactions that have not been eliminated and the caption "amounts to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals (Memorandum Only)" columns are not comparable to a consolidation.

e. Measurement Focus and Basis of Accounting

The financial statements contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

f. Reserved Fund Balance

A comparative analysis of the State Trunkline Fund reserved fund balance at September 30, 2004 and September 30, 2003 follows (in thousands):

	As of September 30	
	2004	2003
Reserves:		
Capital Outlay:		
Facilities	\$ 19,925	\$ 18,932
Institutional roads	1,112	1,064
Road and bridge	355,630	200,951
Total Capital Outlay Reserves	<u>\$ 376,667</u>	<u>\$ 220,948</u>
Encumbrances	<u>\$ 26,915</u>	<u>\$ 27,009</u>
Restricted revenue	\$ 194,967	\$ 233,602
Work projects	<u>\$ 3,201</u>	<u>\$ 5,705</u>
Revolving loan program	<u>\$ 15,400</u>	<u>\$ 14,472</u>
Construction and debt service	<u>\$ 70,272</u>	<u>\$ 55,247</u>
Noncurrent Assets:		
Capital equipment loans	\$ 20,645	\$ 21,261
Maintenance advances	8,037	7,956
Total Noncurrent Assets	<u>\$ 28,683</u>	<u>\$ 29,217</u>
Total Reserved Fund Balance	<u><u>\$ 716,104</u></u>	<u><u>\$ 586,200</u></u>

This comparative analysis does not include the reserved fund balance of the Blue Water Bridge Fund, which was created as a subfund of the State Trunkline Fund. The Blue Water Bridge Fund had a reserved fund balance of \$3.7 million and \$0.8 million at September 30, 2004 and September 30, 2003, respectively.

Note 2 Budgeting and Budgetary Control

The *SOMCAFR* provides disclosures regarding budgetary control. The budget column of the budget and actual statement represents legislative authorization after adjustments for carry-overs, transfers, and restricted revenue shortfalls. "Favorable variances" generally reflect unused general purpose spending authority ("lapses") and/or unused restricted revenue authority, which carry over as a reservation of fund balance and/or general purpose revenue exceeding estimates. "Unfavorable variances" reflect either general purpose

revenue estimate shortfalls or budgetary overdrafts. If both favorable and unfavorable variances exist for a particular line, the amount shown is the net variance.

For purposes of reporting complete information on financial operations of the Blue Water Bridge Fund, a subfund of the State Trunkline Fund, the financial statements reflect intrafund transactions between the Blue Water Bridge Fund and the State Trunkline Fund. In fiscal years 2003-04 and 2002-03, amounts were appropriated in the Blue Water Bridge Fund for operational costs and for partial repayment of the loan due to the State Trunkline Fund. Loan repayments made in fiscal years 2003-04 and 2002-03 were \$5.0 million and \$2.5 million, respectively. As of September 30, 2004, the outstanding loan balance was \$23.9 million.

Note 3 Current Receivables

a. Contested and Delinquent Receivables

Current receivables, which include contested and delinquent receivables, recorded in the financial statements represent amounts due to MDOT as of September 30, 2004 and September 30, 2003 and are expected to be collected within 12 months. Receivables not due for collection within 12 months are classified as long-term assets with an offsetting deferred revenue or fund balance reserve. Because of the uncertainty associated with contested receivables in litigation or pending litigation and delinquent receivables referred to a third party for collection, these contested and delinquent receivables are recorded in an allowance for doubtful accounts, with the net amount reported in the financial statements.

The following provides information regarding contested and delinquent receivables as of September 30, 2004 and September 30, 2003 (in thousands):

	Contested Receivables		Delinquent Receivables		Fund Total	
	As of September 30		As of September 30		As of September 30	
	2004	2003	2004	2003	2004	2003
State Trunkline Fund	\$ 9	\$ 9	\$	\$ 2,900	\$ 9	\$2,909
Comprehensive Transportation Fund	3,208	3,216		55	3,208	3,271
State Aeronautics Fund	553	1,527			553	1,527
Combined State Trunkline Bond Proceeds Fund				264	0	264
Transportation Related Trust Fund				3	0	3
Total Allowance for Doubtful Accounts	<u>\$ 3,770</u>	<u>\$4,752</u>	<u>\$ 0</u>	<u>\$ 3,221</u>	<u>\$ 3,770</u>	<u>\$7,973</u>

b. Taxes Receivable

The net receivable for motor fuel taxes in the Michigan Transportation Fund consisted of gross current receivables of \$240.4 million and \$289.1 million and allowances for uncollectible receivables of \$117.0 million and \$165.3 million as of September 30, 2004 and September 30, 2003, respectively. The reporting of a gross receivable net of a related allowance for uncollectible accounts is consistent with the treatment of other taxes receivable reported in the *SOMCAFR*.

c. Federal Highway Administration (FHWA) Receivable

MDOT recorded federal aid receivables in the State Trunkline Fund, Combined State Trunkline Bond Proceeds Fund, and Transportation Related Trust Fund totaling \$124.1 million and \$119.0 million for the fiscal years ended September 30, 2004 and September 30, 2003, respectively. Of those amounts, \$7.3 million and \$9.9 million, respectively, were recorded from the "To-Be-Billed Summary." The "To-Be-Billed Summary" consists primarily of project costs that exceeded the contract amounts agreed to by FHWA and represents federal funds earned by MDOT but not requested for reimbursement. Consistent with past practices, contract amounts will be increased as federal aid becomes available. No long-term federal aid receivables were recorded for the fiscal years ended September 30, 2004 and September 30, 2003.

d. Advanced Construction

Under an arrangement with FHWA, MDOT has, over a period of years, qualified a number of construction projects for federal reimbursement

without placing them under a reimbursement agreement. These deferred federal aid projects may be converted to current reimbursement at the option of MDOT, provided that there are adequate federal aid allocations. The arrangement was worked out between the states and the federal government to allow states to obtain federal reimbursement not received during the construction period in case a relatively greater amount of federal aid became available at some later date or to assist in balancing the federal aid from year to year.

Advanced construction expenditure activity during the audit period follows (in millions):

	Fiscal Year	
	2003-04	2002-03
Beginning balance of advanced construction expenditures	\$ 455.0	\$ 353.8
Add: State Trunkline Fund advanced construction expenditures incurred	220.0	234.9
Subtract: Advanced construction expenditures placed under reimbursement agreement	(182.6)	(133.7)
Ending balance of advanced construction expenditures	\$ 492.4	\$ 455.0

e. Interfund Receivable

The interfund receivable is recorded for borrowings to eliminate negative balances in the common cash pool at fiscal year-end. The *SOMCAFR* provides more disclosures regarding the common cash pool and interfund borrowings. At fiscal year-end 2003-04 and 2002-03, interfund borrowings from MDOT's special revenue funds amounted to \$849.3 million and \$476.4 million, respectively.

Note 4 General Long-Term Obligations

a. Bonded Debt

Revenue Dedicated Bonded Debt: MDOT has periodically issued long-term bonds for specific purposes with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. This long-term debt is not reported in these financial statements because the statements are presented under the current financial resources model (Note 1e). The State of Michigan's general credit does not support such issues. Act 51, P.A. 1951, as amended, provides that money deposited in the State Trunkline Fund and/or the Comprehensive Transportation Fund

is appropriated for specific purposes in order of priority. A sufficient portion of the State Trunkline Fund and the Comprehensive Transportation Fund is irrevocably appropriated to pay, when due, the principal of and interest outstanding on bonds and notes. The State Trunkline Series 1989 A bond issue and the State Trunkline Series 1992 A and B bond issues included capital appreciation bonds (zero coupon bonds) with an ultimate maturity value of \$29.8 million and \$97.7 million, respectively. These bonds are recorded in the amounts of \$24.6 million and \$73.5 million, respectively, which are the accreted values* at September 30, 2004. These bonds mature in the years 2004 through 2009 and 2006 through 2013, respectively.

Revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30, 2004 and September 30, 2003 are as follows:

Revenue Dedicated Bonded Debt
(In Thousands)

	Amounts Issued	Outstanding at September 30		Maturities		Average Interest Rate
		2004	2003	First Year	Last Year	
<u>Comprehensive Transportation Fund Bonds:</u>						
1996 (Series A Refunding)	\$ 22,650	\$ 20,225	\$ 21,280	1998	2014	5.42%
1998 (Series A Refunding)	38,640	38,640	38,640	2005	2011	4.66%
2001 (Series A Refunding)	27,765	27,765	27,765	2008	2022	5.01%
2002 (Series A Refunding)	89,620	67,855	78,965	2003	2011	5.06%
2002 (Series B)	82,310	79,630	82,310	2004	2022	5.13%
2003	35,020	33,540	35,020	2004	2023	3.61%
<u>State Trunkline Fund Bonds:</u>						
1989 (Series A)	135,779	24,589	28,582	1994	2009	6.97%
1992 (Series A Refunding)	253,618	63,744	64,502	2000	2013	5.64%
1992 (Series B Refunding)	99,592	9,777	4,611	2000	2013	5.68%
1994 (Series A Refunding)	150,000	3,285	9,860	1996	2006	5.50%
1996 (Series A)	54,500	3,410	5,695	1998	2008	5.71%
1998 (Series A)	377,890	377,890	377,890	2006	2027	5.09%
2001 (Series A)	308,200	197,760	302,760	2003	2031	5.27%
2002 (Refunding)	97,870	86,030	97,870	2004	2022	4.71%
2004 (Refunding)	103,450	103,450		2006	2022	4.13%
2004	185,710	185,710		2008	2019	4.36%
Total Revenue Dedicated Bonded Debt	\$2,062,614	\$1,323,299	\$1,175,750			

* See glossary at end of report for definition.

A portion of the proceeds of the \$185.7 million bonds issued in 2004 will be used to pay the costs of certain State Trunkline Fund projects as part of MDOT's five-year Road and Bridge Program designed to preserve the existing infrastructure, reduce traffic congestion, and improve safety along freeways and State trunklines.

Advance Refunding and Defeasance: MDOT has issued refunding bond issues to finance the advance refunding of selected bond issues. A portion of the proceeds of the refunding issues was placed in trust and used to purchase securities of the U.S. government and related agencies at various interest rates and maturities sufficient to meet all debt service requirements of the refunded debt. These assets are administered by a trustee and are restricted for the retirement of the refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying financial statements because MDOT defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transaction.

The following table summarizes the defeased bonds outstanding at September 30, 2004 and September 30, 2003:

Summary of Refunding Transactions
(In Millions)

	Amounts	Balance With Trustee	
	Refunded	At September 30	
		2004	2003
<u>State Trunkline Fund Bonds:</u>			
1994 (Series A - Partial)	\$ 123.8	\$ 123.8	\$ 120.3
1996 (Series A - Partial)	45.2	45.2	43.9
2001 (Series A - Partial)	99.3	99.3	
Total	\$ 268.3	\$ 268.3	\$ 164.3

In May 2004, the State issued \$103.5 million of revenue dedicated State Trunkline Fund Refunding Bonds. The proceeds were used to refund various portions of previously issued bonds that carried higher interest rates.

The State advance refunded these bonds to reduce its total debt service payments over the next 18 years by \$5.4 million and to achieve an economic gain of \$3.9 million.

b. Revenue Dedicated Notes Payable

MDOT issued grant anticipation notes in the fiscal years ended September 30, 2002 and September 30, 2001. The notes have variable rates that may bear interest at a daily interest rate, a weekly interest rate, note interest term rate, a long-term interest rate, or an auction rate securities interest rate. The notes are issued in accordance with the authorization provided in Act 51, P.A. 1951, as amended. The principal and interest on the notes are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the Federal-Aid Highway Program.

The following table summarizes the revenue dedicated notes payable at September 30, 2004 and September 30, 2003:

Revenue Dedicated Notes Payable (In Thousands)				
	Amounts Issued	Outstanding at September 30		Maturities
		2004	2003	
2001 (Series A, B, C, D)	\$ 400,000	\$ 400,000	\$ 400,000	2008
2002 (Series A, B, C, D)	200,000	200,000	200,000	2009
Total Revenue Dedicated Notes Payable	<u>\$ 600,000</u>	<u>\$ 600,000</u>	<u>\$ 600,000</u>	

c. Other General Long-Term Obligations

Capital Leases: Capitalized lease liabilities are described in more detail in Note 5.

Compensated Absences: Compensated absences liabilities are described in more detail in Note 6b.

Claims and Judgments: The liability recorded for claims and judgments consists of projected amounts for highway-related negligence cases based upon historical loss ratios. MDOT continues to contest all of these claims and may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the losses exceed the projected amounts).

Changes in General Long-Term Obligations: Changes in general long-term obligations for the fiscal year ended September 30, 2004 and September 30, 2003 are summarized as follows (in thousands):

	Revenue Dedicated Debt - Oversight Entity		Capital Lease Obligations	
	As of September 30		As of September 30	
	2004	2003	2004	2003
<u>Bonds and Capital Lease Obligations:</u>				
Balance - Beginning	\$1,175,750	\$1,172,582	\$ 918	\$ 1,002
New bond issues/capital lease additions and adjustments	289,160	35,020		
Accretion on capital appreciation bonds	4,407	6,023		
Bond principal retirements/capital lease payments, deletions, and adjustments	(146,018)	(37,875)	(92)	(84)
Balance - Ending	<u>\$1,323,299</u>	<u>\$1,175,750</u>	<u>\$ 826</u>	<u>\$ 918</u>
	Claims and Judgments		Compensated Absences Liabilities	
	As of September 30		As of September 30	
	2004	2003	2004	2003
<u>Other Obligations:</u>				
Balance - Beginning	\$ 1,283	\$ 1,128	\$ 27,431	\$ 30,449
Net increase (decrease) in estimated liabilities	100	155	5,471	(3,018)
Balance - Ending	<u>\$ 1,383</u>	<u>\$ 1,283</u>	<u>\$ 32,902</u>	<u>\$ 27,431</u>

Note 5 Leases

MDOT leases office facilities under noncancelable leasing arrangements. Most leases have cancellation clauses with 1- to 6-month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable because the likelihood that such clauses will be exercised is considered remote. Leases that are in the nature of acquisitions are classified as "capital" leases; therefore, assets and liabilities are recorded at lease inception. Other leases are classified as "operating" leases, and these are treated as rent commitments rather than acquisitions.

Rental expenditures incurred under operating leases totaled \$1,264,618 and \$1,157,591 during fiscal years 2003-04 and 2002-03, respectively.

Summaries of the noncancelable operating and capital leasing commitments to maturity for fiscal years 2003-04 and 2002-03 follow:

Noncancelable Lease Commitments
Fiscal Year 2003-04
(In Thousands)

Fiscal Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2005	\$ 1,777	\$ 100	\$ 60	\$ 56	\$ 216
2006	913	109	50	56	216
2007	719	120	40	56	216
2008	668	132	28	56	216
2009	144	78	18	27	124
2010 - 2016		287	46	60	392
Total	<u>\$ 4,222</u>	<u>\$ 826</u>	<u>\$ 241</u>	<u>\$ 311</u>	<u>\$ 1,379</u>

Noncancelable Lease Commitments
Fiscal Year 2002-03
(In Thousands)

Fiscal Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2005	\$ 1,571	\$ 92	\$ 68	\$ 56	\$ 216
2006	1,165	100	60	56	216
2007	311	109	50	56	216
2008	139	120	40	56	216
2009	116	132	28	56	216
2010 - 2016		365	64	88	516
Total	<u>\$ 3,302</u>	<u>\$ 918</u>	<u>\$ 310</u>	<u>\$ 367</u>	<u>\$ 1,594</u>

The preceding tables do not include leases for State-owned buildings, leases for an amount less than \$10,000, lease extensions less than 12 months, and lease payment changes less than \$200.

All of the preceding capital leases are related to governmental fund operations and the total of capital lease principal is recorded in the government-wide statements of the *SOMCAFR*.

The historical cost of assets acquired under capital leases, which are included in the government-wide statements of the *SOMCAFR*, at September 30, 2004 and September 30, 2003 follows (in thousands):

	As of September 30	
	2004	2003
Buildings	<u>\$ 1,320</u>	<u>\$ 1,320</u>

Note 6 Employee Benefits - Retirement and Compensated Absences

a. Retirement Contributions

MDOT employees are members of the State Employees' Retirement System. Retirement contributions are transferred from MDOT's special revenue funds to the State Employees' Retirement Fund.

MDOT's retirement contributions were as follows (in thousands):

	Fiscal Year	
	2003-04	2002-03
State Trunkline Fund	\$ 24,392	\$ 22,030
Comprehensive Transportation Fund	848	897
State Aeronautics Fund	555	493
Total MDOT Contributions	<u>\$ 25,796</u>	<u>\$ 23,421</u>

b. Compensated Absences

MDOT has accrued liabilities for compensated absences as required by the Governmental Accounting Standards Board (GASB). Liabilities related to governmental fund types are recorded in the government-wide statements in the *SOMCAFR*, unless the liability is "due and payable" (i.e., liabilities are recognized in the year the employee leaves State service) at year-end. The amount "due and payable" is reflected in the "Accounts payable" line of the balance sheet.

In 2004, the State instituted a banked leave time program in which employees work a regular full-time schedule, but receive pay for a reduced number of hours. Employees will be compensated for the unpaid hours upon separation, death, or retirement from State service. The value

of unused banked leave time hours will be contributed to the employee's State of Michigan 401(k) or 457 plan based on the hourly rate earned at the time of separation from State service.

The following table summarizes MDOT related compensated absences liabilities as of September 30, 2004 and September 30, 2003 (in thousands):

	Sick Leave		Annual Leave		Banked Leave		Total	
	As of September 30		As of September 30		As of September 30		As of September 30	
	2004	2003	2004	2003	2004	2003	2004	2003
State Trunkline Fund	\$12,903	\$13,806	\$13,562	\$11,689	\$4,232	\$ 0	\$30,697	\$25,495
Comprehensive								
Transportation Fund	548	611	530	520	162	0	1,240	1,132
State Aeronautics Fund	515	525	326	279	124	0	964	804
Total	<u>\$13,965</u>	<u>\$14,942</u>	<u>\$14,418</u>	<u>\$12,489</u>	<u>\$4,519</u>	<u>\$ 0</u>	<u>\$32,902</u>	<u>\$27,431</u>

If an MDOT employee transfers to another department, the related compensated absences liability is assumed by the employee's new department.

For a more detailed explanation of retirement benefits and compensated absences accruals, refer to the *SOMCAFR*.

Note 7 Capital Assets

Capital assets owned by MDOT, including property, plant, equipment, and infrastructure items (roads, bridges, ramps, railroads, rest areas, and welcome centers), are reported in the government-wide financial statements of the *SOMCAFR*. The capital assets reported by MDOT have been expanded as a result of the implementation of GASB Statement No. 34. For more information on the reporting of capital assets under this Statement, see Note 9 of the *SOMCAFR*.

Classification: The following tables summarize, by major class of asset, fiscal year 2003-04 and 2002-03 changes in reported costs for MDOT's capital assets:

Changes in Capital Assets					
Fiscal Year 2003-04					
(In Millions)					
	Beginning				Ending
	Balance	Additions	Deletions	Adjustments	Balance
<u>Capital Assets, Not Depreciated:</u>					
Roads	\$10,349.6	\$ 153.4	\$ (86.3)	\$	\$ 10,416.6
Land and land improvements	2,828.0	11.8		1.3	2,841.0
Bridges	1,214.1	135.3	(66.7)		1,282.7
Construction in progress	1,099.2	275.5	(283.5)	(3.3)	1,088.0
<u>Capital Assets, Depreciated:</u>					
Ramps	500.9	12.8	(1.1)		512.7
Equipment	113.7	8.3	(7.3)	(0.1)	114.8
Buildings	127.7	2.5			130.2
Railroads	35.0				35.0
Rest areas and welcome centers	60.1	0.1		0.1	60.2
Land improvements	2.8				2.8
Airports	1.9				1.9
<u>Less Accumulated Depreciation for:</u>					
Ramps	(290.1)	(20.3)	1.1		(309.4)
Equipment	(83.3)	(7.0)	7.3		(83.0)
Buildings	(40.3)	(3.3)			(43.6)
Railroads	(19.1)	(0.9)			(20.0)
Rest areas and welcome centers	(26.3)	(1.4)			(27.7)
Land improvements	(0.8)	(0.1)			(0.8)
Airports	(0.4)	(0.1)			(0.4)
Total Capital Assets	\$15,872.7	\$ 566.5	\$ (436.5)	\$ (2.0)	\$ 16,001.1

Changes in Capital Assets
Fiscal Year 2002-03
(In Millions)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
<u>Capital Assets, Not Depreciated:</u>					
Roads	\$10,292.0	\$ 134.1	\$ (76.4)	\$	\$10,349.6
Land and land improvements	2,814.6	12.4	(0.1)	1.0	2,828.0
Bridges	1,195.5	62.8	(44.2)		1,214.1
Construction in progress	876.9	398.5	(176.3)		1,099.2
<u>Capital Assets, Depreciated:</u>					
Ramps	497.0	4.1	(0.2)		500.9
Equipment	113.7	4.0	(3.8)	(0.2)	113.7
Buildings	121.1	6.6			127.7
Railroads	35.0				35.0
Rest areas and welcome centers	54.6	6.5	(1.1)	0.1	60.1
Land improvements	2.8				2.8
Airports	1.9				1.9
<u>Less Accumulated Depreciation for:</u>					
Ramps	(271.4)	(20.0)	0.2	1.0	(290.1)
Equipment	(80.3)	(8.6)	3.6	2.0	(83.3)
Buildings	(36.4)	(3.2)		(0.7)	(40.3)
Railroads	(18.2)	(0.9)			(19.1)
Rest areas and welcome centers	(25.8)	(1.3)	0.8		(26.3)
Land improvements	(0.7)	(0.1)			(0.8)
Airports	(0.3)	(0.1)			(0.4)
Total Capital Assets	<u>\$15,572.0</u>	<u>\$ 594.8</u>	<u>\$ (297.5)</u>	<u>\$ 3.2</u>	<u>\$15,872.7</u>

Funding Source: Following is a summary of funding sources for investment in capital assets as of September 30, 2004 and September 30, 2003 (in millions):

	Investment	
	As of September 30	
	2004	2003
State Trunkline Fund	\$ 15,951.1	\$ 15,824.1
Comprehensive Transportation Fund	31.8	30.7
State Aeronautics Fund	18.2	17.9
Total Investment in Capital Assets	<u>\$ 16,001.1</u>	<u>\$ 15,872.7</u>

Note 8 Excess of Expenditures Over Appropriation

Budgetary control for Michigan Transportation Fund, State Trunkline Fund, Comprehensive Transportation Fund, and State Aeronautics Fund expenditures is established by line-item appropriation within each fund's total appropriation.

MDOT incurred no overexpenditures in fiscal year 2003-04 or in fiscal year 2002-03.

Note 9 Interfund Transfers by the Michigan Transportation Fund

Interfund transfers are reported as other financing sources and uses on the combined statement of revenues, expenditures, and changes in fund balances.

MDOT's most significant interfund transfer is the distribution of Michigan Transportation Fund revenues to the State Trunkline Fund and Comprehensive Transportation Fund. This distribution is in accordance with Section 247.660 of the *Michigan Compiled Laws* (Section 10, Act 51, P.A. 1951, as amended).

The Michigan Transportation Fund collects various taxes, such as gasoline taxes, diesel taxes, motor carrier taxes, and vehicle license taxes. Before the distribution to the State Trunkline Fund and Comprehensive Transportation Fund is calculated, various deductions are taken from the Michigan Transportation Fund's total gross receipts. These deductions include funding for debt service payments, the Rail Grade Crossing Program, administrative costs for divisions within MDOT, and grants with other State agencies.

The Comprehensive Transportation Fund receives 10% of the remaining balance from the Michigan Transportation Fund. After the Comprehensive

Transportation Fund's balance is distributed, additional deductions are taken for the Economic Development Program, Local Road Program, and Critical Bridge Program. Three of the four cents a gallon that MDOT receives for gasoline taxes is then added to the total. The State Trunkline Fund receives 39.1% of the remaining balance.

Other transfers by the Michigan Transportation Fund are also required by Act 51, P.A. 1951, as amended, or the current year's appropriations act. The table below shows the Michigan Transportation Fund's interfund transfers in fiscal years 2003-04 and 2002-03:

Michigan Transportation Fund Interfund Transactions		
	Fiscal Year Ended September 30	
	2004	2003
State Trunkline Fund	\$ 704,709,704	\$ 646,616,100
Comprehensive Transportation Fund	166,353,223	162,323,709
Other State agencies	38,434,855	117,525,390
Debt service funds	43,000,000	43,000,000
Economic Development Program	40,275,000	40,275,000
Local Road Program	33,000,000	33,000,000
Critical Bridge Program	7,205,620	7,155,600
Bureau of Transportation Planning	6,281,351	5,523,383
Bureau of Highways	2,130,592	3,136,863
Rail Grade Crossing Program	3,000,000	3,000,000
Railroad Safety and Tariffs Program	1,641,069	1,266,946
Bureau of Finance and Administration	1,127,500	1,127,500
Worker's Compensation Fund	81,500	
Office of Information Management	22,990	16,427
Total	<u>\$1,047,263,405</u>	<u>\$1,063,966,918</u>

Note 10 Component Unit - Mackinac Bridge Authority

The Mackinac Bridge Authority, which is reported as a component unit in the *SOMCAFR*, has received \$75.3 million of subsidies over the years for operations (\$12.3 million) and debt service (\$63.0 million). These subsidies were provided by the State Trunkline Fund and the Michigan Transportation Fund, respectively, both of which are special revenue funds. The Authority redeemed its remaining bonds on July 1, 1986.

State statutes require that the Authority continue charging bridge tolls and begin repaying the State Trunkline Fund and the Michigan Transportation Fund for the subsidies provided. These repayments would continue until such time as the subsidies have been completely returned. Executive Order No. 1986-14

created the Governor's Mackinac Bridge Task Force to develop an advisory proposal concerning reimbursement of the subsidies, future funding of repair and renovation costs, and the bridge toll structure. The Authority has not recorded a liability, and the State funds have not recorded receivables for these subsidies, because the reimbursements are contingent upon future net revenues and because the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by the Authority after consideration of the Authority's annual needs for its operations and planned repairs and improvements.

The Authority repaid \$9.8 million between fiscal years 1992-93 and 2001-02, with additional repayments of \$250,000 in fiscal years 2003-04 and 2002-03, to the Michigan Transportation Fund. A balance of \$52.8 million is owed to the Michigan Transportation Fund and a balance of \$12.3 million is owed to the State Trunkline Fund.

For the fiscal year ended September 30, 2004, a current receivable of \$1,204,482 is recorded in the State Trunkline Fund's balance sheet as an amount due from component units for the Authority's reimbursement of payroll and related expenses.

Note 11 Contingencies and Commitments

a. Litigation

MDOT is party to various legal proceedings seeking damages and other relief, including injunctive or mandatory relief. The ultimate disposition and consequences of such legal proceedings is not presently determinable, but such ultimate disposition and consequences of all these legal proceedings will not, themselves, in the opinion of the State of Michigan's Attorney General, have a materially adverse effect on MDOT's financial position.

MDOT accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the event that a significant, probable, and reasonably estimable loss is not settled prior to preparation of these statements, the obligation is recorded as a general long-term obligation (see Note 4 for more information).

In March 2002, the County Road Association of Michigan and the Chippewa County Road Commission filed a lawsuit against John M. Engler and various State department directors concerning the provisions of Executive Order No. 2001-9. The lawsuit challenges the constitutionality of the reduction of funds by the Executive Order that would have otherwise been spent under the Michigan Transportation Fund and the Comprehensive Transportation Fund but, under the Executive Order, would make additional funds available in the General Fund. The case is in the appeal process. For further information on the lawsuit, see Note 23 of the fiscal year 2003-04 *SOMCAFR*.

b. Federal Grants

Federal revenues are generally subject to review and audit by grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. As of September 30, 2004 and September 30, 2003, MDOT estimates the disallowance of recognized revenues will not be material to the financial statements.

c. Construction Projects

MDOT has entered into construction contracts that will be paid with future transportation related funds. As of September 30, 2004 and September 30, 2003, the balances remaining on these contracts were \$545.6 million and \$562.2 million, respectively. The breakdown among special revenue funds is as follows (in millions):

	As of September 30	
	2004	2003
State Trunkline Fund	\$386.5	\$381.7
Comprehensive Transportation Fund	1.1	5.4
State Aeronautics Fund	11.7	9.4
Bond Proceeds Funds	73.0	79.4
Transportation Related Trust Fund	73.3	86.3
Total	\$545.6	\$562.2

SUPPLEMENTAL FINANCIAL STATEMENTS AND SCHEDULES

Descriptions of Special Revenue Funds

MICHIGAN TRANSPORTATION FUND

This Fund, established by Section 10, Act 51, P.A. 1951, as amended, is administered jointly by the Michigan Department of Transportation and the Department of State. In addition, Fund revenue is also collected by the Department of Treasury. Its budget is subject to annual legislative review and appropriation. The Fund is a receiving fund for the several tax revenues dedicated to transportation purposes. Transfers are made to the General Fund to pay the cost of collection of the dedicated revenues and to the State Trunkline Fund, Comprehensive Transportation Fund, Economic Development Fund (a subfund of the State Trunkline Fund), and Recreation Improvement Fund (a subfund within the General Fund at the Department of Natural Resources) in accordance with statutory formulas. Expenditures consist of grants to counties, cities, and villages for highway purposes in accordance with statutory formulas.

STATE TRUNKLINE FUND

This Fund, established by Section 11, Act 51, P.A. 1951, as amended, provides for construction and maintenance of highways and bridges. Its overall budget is subject to annual legislative review and appropriation, but the State Transportation Commission has significant discretion in determining the funding of individual projects. Major financing sources are transfers from the Michigan Transportation Fund, federal aid, and local participation. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations. This Fund was also used to record loans made to local units of government for reconstructing and resurfacing roadways. In accordance with the annual statutory provisions, unreserved balances at fiscal year-end are transferred to the road and bridge construction account of the Fund.

In fiscal year 1987-88, the Economic Development Fund, a subfund, was created within the State Trunkline Fund. The statements for the State Trunkline Fund include the financial activity for the Economic Development Fund. A separate schedule summarizing the Economic Development Fund activity is included as a supplemental schedule in this report.

The Blue Water Bridge Fund was created as a separate fund, reported within the State Trunkline Fund, during fiscal year 1993-94 to account for the Blue Water Bridge Project.

Through provisions of Section 1012 in the federal Intermodal Surface Transportation Efficiency Act of 1991, the State Trunkline Fund received federal funds to be loaned to the Blue Water Bridge Fund for construction of the Blue Water Bridge Project. Repayment of the \$45 million loan began in 1998. Repayments of the loan are expected to occur each fiscal year. The term of the loan will not exceed 30 years from the time the loan was obligated. A separate schedule summarizing the Blue Water Bridge Fund activity is included as a supplemental schedule in this report.

COMPREHENSIVE TRANSPORTATION FUND

This Fund, which operates under Section 10b, Act 51, P.A. 1951, as amended, was created for the purpose of planning, developing, and funding public transportation systems within the State. It was created by Acts 326, 327, and 328, P.A. 1972, and Act 197, P.A. 1973. In 1975, Acts 195, 196, and 239 were enacted, providing further additions and amendments to the laws governing this Fund. Its budget is subject to annual legislative review and appropriation. Fund revenues consist primarily of federal and local revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund. In accordance with statutory provisions, any unreserved balance at fiscal year-end lapses and reverts to the Fund for appropriation in the following fiscal year.

STATE AERONAUTICS FUND

This Fund, established by Act 327, P.A. 1945, administers development and capital improvement projects for airports. Its budget is subject to annual legislative review and appropriation. Revenue consists mostly of federal and local contributions and aviation fuel taxes. Expenditures and transfers are for administration and local airport improvement project costs. In accordance with statutory provisions, any unreserved balance at fiscal year-end lapses and reverts to the Fund for appropriation in the following fiscal year.

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND

This Fund was established pursuant to Section 18b, Act 51, P.A. 1951, as amended, to account for the proceeds of State trunkline revenue dedicated bonds. These bonds are being used in part to finance the costs of reconstructing and resurfacing portions of the State trunkline system.

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

This Fund was established pursuant to Section 18b, Act 51, P.A. 1951, as amended, to account for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are being used to finance part of the construction and acquisition of comprehensive transportation projects.

TRANSPORTATION RELATED TRUST FUND

To achieve administrative efficiencies, effective October 1, 1990, the Special Federal Bridge Replacement Fund, Federal County Road Fund, Federal Urban Transportation System Fund, and Highway Topics and Safety Program Fund were combined in a single trust fund. The functions and purposes of these funds, although combined in a single fund, remain unchanged. At the end of fiscal year 1999-2000, the Metropolitan Planning Fund was closed to this trust fund. Changes in the financial activities of the Metropolitan Planning Fund changed the Michigan Department of Transportation's role from custodial agent to a trustee. At the end of fiscal year 2000-01, all of the transportation related trust funds were determined to be special revenue funds, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. The following funds are included in the special revenue fund:

SPECIAL FEDERAL BRIDGE REPLACEMENT FUND

This Fund was authorized by enabling legislation associated with Section 144 of the Federal Highway Act of 1970. The Fund accounts for the federal, State, and local funding used to upgrade locally owned bridges.

FEDERAL COUNTY ROAD FUND

This Fund was authorized by enabling legislation associated with the Federal Highway Act of 1944, as amended. The Fund accounts for the federal, State, and local money expended to meet the road construction needs of rural areas and communities with populations less than 5,000.

FEDERAL URBAN TRANSPORTATION SYSTEM FUND

This Fund was authorized by enabling legislation associated with the Federal Highway Act of 1970, as amended. The Fund accounts for the federal, State, and local money expended to meet the road construction needs of communities with populations of 5,000 or more.

HIGHWAY TOPICS AND SAFETY PROGRAM FUND

This Fund was established by enabling legislation associated with the Federal Highway Acts of 1968 and 1973. The Fund accounts for federal, State, and local money used to fund urban and road safety projects.

METROPOLITAN PLANNING FUND

This Fund was established by Sections 112 and 134 of the Federal Highway Act of 1973 to account for federal funds that reimburse local regional planning agencies for operating expenses.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Balance Sheet - Special Revenue Funds
As of September 30
(In Thousands)

	Michigan Transportation Fund		State Trunkline Fund		Comprehensive Transportation Fund	
	2004	2003	2004	2003	2004	2003
ASSETS						
Current Assets:						
Cash and cash equivalents	\$	\$	\$ 529	\$ 51	\$ 12	\$ 14
Equity in common cash	81,974	186,685		99,155	41,852	56,889
Receivables:						
Taxes, interest, and penalties (at net)	118,843	116,895				
Federal aid			84,545	77,625	8,326	8,294
Local units			21,958	24,837	905	679
Other funds and component units	106,785		786,798	519,992	11,612	11,427
Miscellaneous	4,639	6,892	7,851	8,505	1,333	451
Inventories			5,921	5,594		
Total Current Assets	<u>\$ 312,242</u>	<u>\$ 310,472</u>	<u>\$ 907,603</u>	<u>\$ 735,759</u>	<u>\$ 64,040</u>	<u>\$ 77,753</u>
Noncurrent Assets:						
Receivables:						
Taxes	\$ 1,381	\$ 1,615	\$	\$	\$	\$
Local units			35,881	35,672	6,189	4,726
Advances to other funds			21,689	25,984		
Land contracts			1,908	3,847		
Miscellaneous					1,766	2,161
Total Noncurrent Assets	<u>\$ 1,381</u>	<u>\$ 1,615</u>	<u>\$ 59,478</u>	<u>\$ 65,503</u>	<u>\$ 7,955</u>	<u>\$ 6,886</u>
Total Assets	<u>\$ 313,623</u>	<u>\$ 312,087</u>	<u>\$ 967,081</u>	<u>\$ 801,262</u>	<u>\$ 71,995</u>	<u>\$ 84,640</u>
LIABILITIES AND FUND BALANCES						
Current Liabilities:						
Warrants outstanding	\$ 3,549	\$ 540	\$ 12,648	\$ 26,332	\$ 302	\$ 3,720
Accounts payable	238,628	236,512	169,672	120,656	18,348	11,626
Contract reserve payable			9,997	7,513	28	32
Due to other funds and component units	52,475	51,641	3,914	3,308	51	40
Deposits, permits, and other liabilities			490	612		31
Deferred revenue	17,589	21,780	14,740	14,107		
Total Current Liabilities	<u>\$ 312,242</u>	<u>\$ 310,472</u>	<u>\$ 211,460</u>	<u>\$ 172,528</u>	<u>\$ 18,728</u>	<u>\$ 15,449</u>
Long-Term Liabilities:						
Deferred revenue	1,381	1,615	14,095	15,785	1,766	2,161
Advances from other funds			21,689	25,984		
Total Liabilities	<u>\$ 313,623</u>	<u>\$ 312,087</u>	<u>\$ 247,245</u>	<u>\$ 214,297</u>	<u>\$ 20,495</u>	<u>\$ 17,610</u>
Fund Balances:						
Reserved for encumbrances	\$	\$	\$ 27,121	\$ 27,048	\$ 31,274	\$ 41,127
Reserved for unencumbered restricted revenue balances			194,967	233,602	8,190	8,784
Reserved for unencumbered capital outlay and work projects			383,394	227,379	563	430
Reserved for revolving loans			15,400	14,472	11,340	11,182
Reserved for construction and debt service			70,272	55,247		
Reserved for noncurrent assets			28,683	29,217		
Total Reserved	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 719,837</u>	<u>\$ 586,965</u>	<u>\$ 51,367</u>	<u>\$ 61,523</u>
Unreserved					133	5,507
Total Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 719,837</u>	<u>\$ 586,965</u>	<u>\$ 51,500</u>	<u>\$ 67,030</u>
Total Liabilities and Fund Balances	<u>\$ 313,623</u>	<u>\$ 312,087</u>	<u>\$ 967,081</u>	<u>\$ 801,262</u>	<u>\$ 71,995</u>	<u>\$ 84,640</u>

State Aeronautics Fund		Combined State Trunkline Bond Proceeds Fund		Combined Comprehensive Transportation Bond Proceeds Fund		Transportation Related Trust Fund		Totals	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
\$ 19,343	\$ 14,240	\$ 16	\$ 250,759	\$ 203,365	\$ 85,026	\$ 409	\$ 85	\$ 966	\$ 151
							3,669	478,953	670,490
752	728							119,596	117,623
24,265	37,378	3,265	7,923			36,254	33,419	156,655	164,639
18,877	7,523	774	824			14,952	17,160	57,466	51,023
								905,195	531,420
43	39	13	28			169	33	14,048	15,948
								5,921	5,594
<u>\$ 63,281</u>	<u>\$ 59,909</u>	<u>\$ 254,826</u>	<u>\$ 212,140</u>	<u>\$ 85,026</u>	<u>\$ 106,488</u>	<u>\$ 51,783</u>	<u>\$ 54,366</u>	<u>\$ 1,738,801</u>	<u>\$ 1,556,888</u>
\$ 650	\$ 648	\$	\$	\$	\$	\$	\$	\$ 1,381	\$ 1,615
								42,720	41,047
								21,689	25,984
								1,908	3,847
								1,766	2,161
<u>\$ 650</u>	<u>\$ 649</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 69,465</u>	<u>\$ 74,653</u>
<u>\$ 63,931</u>	<u>\$ 60,557</u>	<u>\$ 254,826</u>	<u>\$ 212,140</u>	<u>\$ 85,026</u>	<u>\$ 106,488</u>	<u>\$ 51,783</u>	<u>\$ 54,366</u>	<u>\$ 1,808,265</u>	<u>\$ 1,631,541</u>
\$ 927	\$ 1,586	\$ 88	\$ 5,782	\$ 163	\$ 387	\$ 9,907	\$ 17,902	\$ 48,030	
28,815	31,799	4,595	13,322	2,208	1,516	8,563	25,638	470,829	441,069
	807	30	870	45		250	4,590	10,350	13,813
35	25					34,962		91,437	55,013
								490	643
9,706	7,760	682	641			7,621	14,232	50,339	58,519
<u>\$ 39,483</u>	<u>\$ 41,977</u>	<u>\$ 5,396</u>	<u>\$ 20,616</u>	<u>\$ 2,253</u>	<u>\$ 1,679</u>	<u>\$ 51,783</u>	<u>\$ 54,366</u>	<u>\$ 641,346</u>	<u>\$ 617,087</u>
								17,243	19,561
								21,689	25,984
<u>\$ 39,483</u>	<u>\$ 41,977</u>	<u>\$ 5,396</u>	<u>\$ 20,616</u>	<u>\$ 2,253</u>	<u>\$ 1,679</u>	<u>\$ 51,783</u>	<u>\$ 54,366</u>	<u>\$ 680,277</u>	<u>\$ 662,632</u>
\$ 1,739	\$ 1,166	\$	\$	\$	\$	\$	\$	\$ 60,134	\$ 69,341
								203,157	242,386
15,748	11,178							399,706	238,987
2,200	2,200							28,940	27,854
								70,272	55,247
								28,683	29,217
<u>\$ 19,688</u>	<u>\$ 14,544</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 790,892</u>	<u>\$ 663,033</u>
4,760	4,035	249,430	191,524	82,773	104,809			337,096	305,876
<u>\$ 24,448</u>	<u>\$ 18,580</u>	<u>\$ 249,430</u>	<u>\$ 191,524</u>	<u>\$ 82,773</u>	<u>\$ 104,809</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,127,988</u>	<u>\$ 968,909</u>
<u>\$ 63,931</u>	<u>\$ 60,557</u>	<u>\$ 254,826</u>	<u>\$ 212,140</u>	<u>\$ 85,026</u>	<u>\$ 106,488</u>	<u>\$ 51,783</u>	<u>\$ 54,366</u>	<u>\$ 1,808,265</u>	<u>\$ 1,631,541</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

	Michigan Transportation Fund		State Trunkline Fund		Comprehensive Transportation Fund	
	2004	2003	2004	2003	2004	2003
REVENUES						
Taxes	\$ 2,007,077	\$ 1,937,851	\$	\$	\$ 64,960	\$ 79,440
Licenses and permits	51,355	56,670	18,934	17,990	290	264
Federal aid			587,495	552,141	29,670	25,523
Local participation			38,588	28,589	4	30
Interest earnings	2,874	3,688	6,454	6,251	98	327
Nonoperating revenue - bridges			2,142	2,122		
Miscellaneous revenue	250	250	36,522	42,237	4,766	3,964
Total Revenues	\$ 2,061,556	\$ 1,998,459	\$ 690,134	\$ 649,329	\$ 99,787	\$ 109,548
EXPENDITURES						
Administration and Operations:						
Administration and maintenance	\$ 8,074	\$ 233	\$ 377,666	\$ 362,508	\$ 11,053	\$ 10,046
Bus operating assistance grants					172,628	170,449
Other grants	1,009,246	936,206	134,924	129,628	70,491	60,450
Airport development						
Nonoperating expenditures - bridges			2,078	2,051		
Trust fund construction activity						
Capital lease payments			160	160		
Total Administration and Operations	\$ 1,017,320	\$ 936,439	\$ 514,828	\$ 494,347	\$ 254,172	\$ 240,946
Capital Outlay:						
Roads and bridges	\$	\$	\$ 801,115	\$ 786,637	\$	\$
Other capital outlay			11,783	9,636		
Total Capital Outlay	\$ 0	\$ 0	\$ 812,898	\$ 796,272	\$ 0	\$ 0
Total Expenditures	\$ 1,017,320	\$ 936,439	\$ 1,327,726	\$ 1,290,620	\$ 254,172	\$ 240,946
Excess of Revenues Over (Under) Expenditures	\$ 1,044,236	\$ 1,062,020	\$ (637,592)	\$ (641,291)	\$ (154,385)	\$ (131,398)
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$	\$	\$ 704,710	\$ 646,616	\$ 166,353	\$ 162,324
Grants and transfers from other funds and component units	3,027	1,947	148,299	146,025	1,788	1,405
Proceeds from sale of capital assets			6,903			
Proceeds from bonds and notes issued						
Premium on bonds issued						
Total Other Financing Sources	\$ 3,027	\$ 1,947	\$ 859,912	\$ 792,641	\$ 168,141	\$ 163,729
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$ 871,063	\$ 808,940	\$	\$	\$	\$
Grants and transfers to other funds and component units	176,200	255,027	14,263	24,469	795	382
Debt service			75,186	82,964	28,492	21,492
Total Other Financing Uses	\$ 1,047,263	\$ 1,063,967	\$ 89,448	\$ 107,432	\$ 29,287	\$ 21,874
Excess of Other Financing Sources Over (Under) Other Financing Uses	\$ (1,044,236)	\$ (1,062,020)	\$ 770,463	\$ 685,209	\$ 138,855	\$ 141,855
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 132,871	\$ 43,918	\$ (15,530)	\$ 10,457
Fund balances - Beginning of fiscal year			586,965	543,047	67,030	56,573
Fund balances - End of fiscal year	\$ 0	\$ 0	\$ 719,837	\$ 586,965	\$ 51,500	\$ 67,030

State Aeronautics Fund		Combined State Trunkline Bond Proceeds Fund		Combined Comprehensive Transportation Bond Proceeds Fund		Transportation Related Trust Fund		Totals	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
\$ 7,721	\$ 7,402	\$	\$	\$	\$	\$	\$	\$ 2,079,758	\$ 2,024,694
314	293							70,893	75,217
107,205	75,039	29,060	22,299			187,790	191,306	941,219	866,308
17,501	12,272	2,975	2,949			71,194	79,892	130,262	123,732
381	300	2,117	4,516	1,162	1,262	237		13,321	16,344
								2,142	2,122
1,784	826	363	1,034	2	12	5	125	43,692	48,448
\$ 134,906	\$ 96,131	\$ 34,514	\$ 30,799	\$ 1,164	\$ 1,274	\$ 259,226	\$ 271,322	\$ 3,281,288	\$ 3,156,863
\$ 7,114	\$ 5,723	\$	\$ 1,018	\$	\$	\$	\$	\$ 403,907	\$ 379,529
								172,628	170,449
				22,950	8,973			1,237,611	1,135,258
129,759	111,363							129,759	111,363
								2,078	2,051
						265,507	281,712	265,507	281,712
								160	160
\$ 136,873	\$ 117,086	\$ 0	\$ 1,018	\$ 22,950	\$ 8,973	\$ 265,507	\$ 281,712	\$ 2,211,650	\$ 2,080,521
\$	\$	\$ 172,414	\$ 239,613	\$	\$	\$	\$	\$ 973,529	\$ 1,026,250
								11,783	9,636
\$ 0	\$ 0	\$ 172,414	\$ 239,613	\$ 0	\$ 0	\$ 0	\$ 0	\$ 985,312	\$ 1,035,886
\$ 136,873	\$ 117,086	\$ 172,414	\$ 240,632	\$ 22,950	\$ 8,973	\$ 265,507	\$ 281,712	\$ 3,196,962	\$ 3,116,407
\$ (1,968)	\$ (20,954)	\$ (137,900)	\$ (209,833)	\$ (21,785)	\$ (7,698)	\$ (6,281)	\$ (10,390)	\$ 84,326	\$ 40,457
\$ 9,674	\$ 26,228	\$ 5,948	\$ 731	\$	\$	\$ 7,044	\$ 10,473	\$ 871,063	\$ 808,940
								175,780	186,809
								6,903	
		185,710			35,020			185,710	35,020
		15,535			1,362			15,535	1,362
\$ 9,674	\$ 26,228	\$ 207,192	\$ 731	\$ 0	\$ 36,382	\$ 7,044	\$ 10,473	\$ 1,254,991	\$ 1,032,131
\$ 52	\$ 605	\$ 11,386	\$ 9,545	\$ 251	\$ 14,140	\$ 763	\$ 83	\$ 871,063	\$ 808,940
1,787								203,710	304,251
\$ 1,838	\$ 605	\$ 11,386	\$ 9,545	\$ 251	\$ 14,140	\$ 763	\$ 83	105,464	104,455
\$ 7,836	\$ 25,622	\$ 195,806	\$ (8,814)	\$ (251)	\$ 22,242	\$ 6,281	\$ 10,390	\$ 74,753	\$ (185,516)
\$ 5,868	\$ 4,668	\$ 57,906	\$ (218,646)	\$ (22,036)	\$ 14,543	\$ 0	\$ 0	\$ 159,079	\$ (145,059)
18,580	13,912	191,524	410,171	104,809	90,266			968,909	1,113,968
\$ 24,448	\$ 18,580	\$ 249,430	\$ 191,524	\$ 82,773	\$ 104,809	\$ 0	\$ 0	\$ 1,127,988	\$ 968,909

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Note 2)
Special Revenue Funds
Fiscal Year Ended September 30, 2004
(In Thousands)

(Statutory/Budgetary Basis)	Michigan Transportation Fund			State Trunkline Fund			Comprehensive Transportation Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Taxes	\$ 2,007,077	\$ 2,007,077	\$ 0	\$	\$	\$	\$ 64,960	\$ 64,960	\$ 0
Licenses and permits	51,355	51,355	0	18,934	18,934	0	290	290	0
Federal aid				587,495	587,495	0	29,670	29,670	0
Local participation				38,588	38,588	0	4	4	0
Interest earnings	2,874	2,874	0	6,454	6,454	0	98	98	0
Nonoperating revenue - bridges				2,142	2,142	0			
Miscellaneous revenue	250	250	0	36,522	36,522	0	4,766	4,766	0
Total Revenues	<u>\$ 2,061,556</u>	<u>\$ 2,061,556</u>	<u>\$ 0</u>	<u>\$ 690,134</u>	<u>\$ 690,134</u>	<u>\$ 0</u>	<u>\$ 99,787</u>	<u>\$ 99,787</u>	<u>\$ 0</u>
EXPENDITURES AND ENCUMBRANCES									
Administration and Operations:									
Administration and maintenance	\$ 7,966	\$ 8,074	\$ (108)	\$ 445,328	\$ 401,320	\$ 44,008	\$ 12,231	\$ 11,386	\$ 845
Bus operating assistance grants							174,630	174,628	2
Other grants	1,009,386	1,009,246	141	181,105	134,927	46,178	112,316	99,432	12,884
Airport development									
Nonoperating expenditures - bridges				2,143	2,078	64			
Total Administration and Operations	<u>\$ 1,017,352</u>	<u>\$ 1,017,320</u>	<u>\$ 32</u>	<u>\$ 628,576</u>	<u>\$ 538,326</u>	<u>\$ 90,251</u>	<u>\$ 299,178</u>	<u>\$ 285,446</u>	<u>\$ 13,732</u>
Capital Outlay:									
Roads and bridges	\$	\$	\$	\$ 801,827	\$ 801,657	\$ 171	\$	\$	\$
Other capital outlay				66,901	14,864	52,037			
Total Capital Outlay	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 868,728</u>	<u>\$ 816,521</u>	<u>\$ 52,208</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures and Encumbrances	<u>\$ 1,017,352</u>	<u>\$ 1,017,320</u>	<u>\$ 32</u>	<u>\$ 1,497,305</u>	<u>\$ 1,354,846</u>	<u>\$ 142,458</u>	<u>\$ 299,178</u>	<u>\$ 285,446</u>	<u>\$ 13,732</u>
Excess of Revenues Over (Under) Expenditures and Encumbrances	<u>\$ 1,044,204</u>	<u>\$ 1,044,236</u>	<u>\$ 32</u>	<u>\$ (807,171)</u>	<u>\$ (664,712)</u>	<u>\$ 142,458</u>	<u>\$ (199,391)</u>	<u>\$ (185,659)</u>	<u>\$ 13,732</u>
OTHER FINANCING SOURCES									
Michigan Transportation Fund distribution	\$	\$	\$	\$ 704,710	\$ 704,710	\$ 0	\$ 166,353	\$ 166,353	\$ 0
Grants and transfers from other funds and component units	3,027	3,027	0	148,299	148,299	0	1,788	1,788	0
Proceeds from sale of capital assets				6,903	6,903	0			
Total Other Financing Sources	<u>\$ 3,027</u>	<u>\$ 3,027</u>	<u>\$ 0</u>	<u>\$ 859,912</u>	<u>\$ 859,912</u>	<u>\$ 0</u>	<u>\$ 168,141</u>	<u>\$ 168,141</u>	<u>\$ 0</u>
OTHER FINANCING USES									
Michigan Transportation Fund distribution	\$ 896,795	\$ 871,063	\$ 25,732	\$	\$	\$	\$	\$	\$
Grants and transfers to other funds and component units	180,115	176,200	3,914	2,029	14,263	(12,234)	95	795	(699)
Debt service				82,090	75,186	6,905	28,721	28,492	229
Total Other Financing Uses	<u>\$ 1,076,909</u>	<u>\$ 1,047,263</u>	<u>\$ 29,646</u>	<u>\$ 84,120</u>	<u>\$ 89,448</u>	<u>\$ (5,329)</u>	<u>\$ 28,816</u>	<u>\$ 29,287</u>	<u>\$ (471)</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$(1,073,882)</u>	<u>\$(1,044,236)</u>	<u>\$ 29,646</u>	<u>\$ 775,792</u>	<u>\$ 770,463</u>	<u>\$ (5,329)</u>	<u>\$ 139,326</u>	<u>\$ 138,855</u>	<u>\$ (471)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	<u>\$ (29,678)</u>	<u>\$ 0</u>	<u>\$ 29,678</u>	<u>\$ (31,379)</u>	<u>\$ 105,751</u>	<u>\$ 137,130</u>	<u>\$ (60,065)</u>	<u>\$ (46,804)</u>	<u>\$ 13,261</u>
RECONCILING ITEMS									
Encumbrances at September 30		\$			\$ 27,121			\$ 31,274	
Funds not annually budgeted									
Net Reconciling Items		<u>\$ 0</u>			<u>\$ 27,121</u>			<u>\$ 31,274</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ 0			\$ 132,871			\$ (15,530)	
FUND BALANCES (GAAP BASIS)									
Beginning balances					586,965			67,030	
Ending balances		<u>\$ 0</u>			<u>\$ 719,837</u>			<u>\$ 51,500</u>	

State Aeronautics Fund			Funds Not Annually Budgeted			Totals		
			Combined State Trunkline Bond Proceeds Fund	Combined Comprehensive Transportation Bond Proceeds Fund	Transportation Related Trust Fund			
Budget	Actual	Variance Favorable (Unfavorable)	Actual	Actual	Actual	Budget	Actual	Variance Favorable (Unfavorable)
\$ 7,721	\$ 7,721	\$ 0	\$	\$	\$	\$ 2,079,758	\$ 2,079,758	\$ 0
314	314	0				70,893	70,893	0
107,205	107,205	0				724,369	724,369	0
17,501	17,501	0				56,093	56,093	0
381	381	0				9,806	9,806	0
						2,142	2,142	0
1,784	1,784	0				43,322	43,322	0
<u>\$ 134,906</u>	<u>\$ 134,906</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,986,383</u>	<u>\$ 2,986,383</u>	<u>\$ 0</u>
\$ 8,408	\$ 7,151	\$ 1,257	\$	\$	\$	\$ 473,933	\$ 427,931	\$ 46,003
						174,630	174,628	2
						1,302,808	1,243,605	59,203
131,625	131,462	163				131,625	131,462	163
						2,143	2,078	64
<u>\$ 140,033</u>	<u>\$ 138,613</u>	<u>\$ 1,420</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,085,139</u>	<u>\$ 1,979,704</u>	<u>\$ 105,435</u>
\$	\$	\$	\$	\$	\$	\$ 801,827	\$ 801,657	\$ 171
						66,901	14,864	52,037
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 868,728</u>	<u>\$ 816,521</u>	<u>\$ 52,208</u>
\$ 140,033	\$ 138,613	\$ 1,420	\$ 0	\$ 0	\$ 0	\$ 2,953,867	\$ 2,796,225	\$ 157,642
\$ (5,127)	\$ (3,707)	\$ 1,420	\$ 0	\$ 0	\$ 0	\$ 32,515	\$ 190,158	\$ 157,642
\$	\$	\$	\$	\$	\$	\$ 871,063	\$ 871,063	\$ 0
9,674	9,674	0				162,788	162,788	0
						6,903	6,903	0
<u>\$ 9,674</u>	<u>\$ 9,674</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,040,754</u>	<u>\$ 1,040,754</u>	<u>\$ 0</u>
\$	\$	\$	\$	\$	\$	\$ 896,795	\$ 871,063	\$ 25,732
50	52	(2)				182,289	191,310	(9,021)
1,787	1,787	0				112,598	105,464	7,134
<u>\$ 1,837</u>	<u>\$ 1,838</u>	<u>\$ (2)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,191,681</u>	<u>\$ 1,167,837</u>	<u>\$ 23,844</u>
\$ 7,837	\$ 7,836	\$ (2)	\$ 0	\$ 0	\$ 0	\$ (150,927)	\$ (127,082)	\$ 23,844
<u>\$ 2,710</u>	<u>\$ 4,129</u>	<u>\$ 1,418</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (118,412)</u>	<u>\$ 63,075</u>	<u>\$ 181,487</u>
	\$ 1,739		\$ 57,906	\$ (22,036)	\$		\$ 60,134	
							35,870	
	<u>\$ 1,739</u>		<u>\$ 57,906</u>	<u>\$ (22,036)</u>	<u>\$ 0</u>		<u>\$ 96,004</u>	
	\$ 5,868		\$ 57,906	\$ (22,036)	\$ 0		\$ 159,079	
	18,580		191,524	104,809			968,909	
	<u>\$ 24,448</u>		<u>\$ 249,430</u>	<u>\$ 82,773</u>	<u>\$ 0</u>		<u>\$ 1,127,988</u>	

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Note 2)
Special Revenue Funds
Fiscal Year Ended September 30, 2003
(In Thousands)

(Statutory/Budgetary Basis)	Michigan Transportation Fund			State Trunkline Fund			Comprehensive Transportation Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Taxes	\$ 1,937,851	\$ 1,937,851	\$ 0	\$	\$	\$	\$ 79,440	\$ 79,440	\$ 0
Licenses and permits	56,670	56,670	0	17,990	17,990	0	264	264	0
Federal aid				552,141	552,141	0	25,523	25,523	0
Local participation				28,589	28,589	0	30	30	0
Interest earnings	3,688	3,688	0	6,251	6,251	0	327	327	0
Nonoperating revenue - bridges				2,122	2,122	0			
Miscellaneous revenue	250	250	0	42,237	42,237	0	3,964	3,964	0
Total Revenues	<u>\$ 1,998,459</u>	<u>\$ 1,998,459</u>	<u>\$ 0</u>	<u>\$ 649,329</u>	<u>\$ 649,329</u>	<u>\$ 0</u>	<u>\$ 109,548</u>	<u>\$ 109,548</u>	<u>\$ 0</u>
EXPENDITURES AND ENCUMBRANCES									
Administration and Operations:									
Administration and maintenance	\$	\$ 233	\$ (233)	\$ 421,736	\$ 386,238	\$ 35,499	\$ 11,466	\$ 10,696	\$ 770
Bus operating assistance grants							171,472	171,470	2
Other grants	939,576	936,206	3,370	187,015	129,679	57,336	106,186	99,907	6,279
Airport development									
Nonoperating expenditures - bridges				2,122	2,051	71			
Total Administration and Operations	<u>\$ 939,576</u>	<u>\$ 936,439</u>	<u>\$ 3,137</u>	<u>\$ 610,873</u>	<u>\$ 517,967</u>	<u>\$ 92,906</u>	<u>\$ 289,124</u>	<u>\$ 282,073</u>	<u>\$ 7,051</u>
Capital Outlay:									
Roads and bridges	\$	\$	\$	\$ 788,290	\$ 787,491	\$ 799	\$	\$	\$
Other capital outlay				66,690	12,209	54,480			
Total Capital Outlay	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 854,980</u>	<u>\$ 799,700</u>	<u>\$ 55,279</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures and Encumbrances	<u>\$ 939,576</u>	<u>\$ 936,439</u>	<u>\$ 3,137</u>	<u>\$ 1,465,853</u>	<u>\$ 1,317,668</u>	<u>\$ 148,185</u>	<u>\$ 289,124</u>	<u>\$ 282,073</u>	<u>\$ 7,051</u>
Excess of Revenues Over (Under) Expenditures and Encumbrances	<u>\$ 1,058,883</u>	<u>\$ 1,062,020</u>	<u>\$ 3,137</u>	<u>\$ (816,524)</u>	<u>\$ (668,339)</u>	<u>\$ 148,185</u>	<u>\$ (179,576)</u>	<u>\$ (172,525)</u>	<u>\$ 7,051</u>
OTHER FINANCING SOURCES									
Michigan Transportation Fund distribution	\$	\$	\$	\$ 646,616	\$ 646,616	\$ 0	\$ 162,324	\$ 162,324	\$ 0
Grants and transfers from other funds and component units	1,947	1,947	0	146,025	146,025	0	1,405	1,405	0
Total Other Financing Sources	<u>\$ 1,947</u>	<u>\$ 1,947</u>	<u>\$ 0</u>	<u>\$ 792,641</u>	<u>\$ 792,641</u>	<u>\$ 0</u>	<u>\$ 163,729</u>	<u>\$ 163,729</u>	<u>\$ 0</u>
OTHER FINANCING USES									
Michigan Transportation Fund distribution	\$ 813,014	\$ 808,940	\$ 4,074	\$	\$	\$	\$	\$	\$
Grants and transfers to other funds and component units	265,849	255,027	10,822	16,016	24,469	(8,453)	403	382	21
Debt service				94,509	82,964	11,546	21,492	21,492	0
Total Other Financing Uses	<u>\$ 1,078,863</u>	<u>\$ 1,063,967</u>	<u>\$ 14,896</u>	<u>\$ 110,525</u>	<u>\$ 107,432</u>	<u>\$ 3,093</u>	<u>\$ 21,895</u>	<u>\$ 21,874</u>	<u>\$ 21</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$(1,076,916)</u>	<u>\$(1,062,020)</u>	<u>\$ 14,896</u>	<u>\$ 682,115</u>	<u>\$ 685,209</u>	<u>\$ 3,093</u>	<u>\$ 141,834</u>	<u>\$ 141,855</u>	<u>\$ 21</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	<u>\$ (18,033)</u>	<u>\$ 0</u>	<u>\$ 18,033</u>	<u>\$ (134,408)</u>	<u>\$ 16,870</u>	<u>\$ 151,278</u>	<u>\$ (37,742)</u>	<u>\$ (30,670)</u>	<u>\$ 7,072</u>
RECONCILING ITEMS									
Encumbrances at September 30		\$			\$ 27,048			\$ 41,127	
Funds not annually budgeted									
Net Reconciling Items		<u>\$ 0</u>			<u>\$ 27,048</u>			<u>\$ 41,127</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ 0			\$ 43,918			\$ 10,457	
FUND BALANCES (GAAP BASIS)									
Beginning balances					543,047			56,573	
Ending balances		<u>\$ 0</u>			<u>\$ 586,965</u>			<u>\$ 67,030</u>	

State Aeronautics Fund			Funds Not Annually Budgeted			Totals		
			Combined State Trunkline Bond Proceeds Fund	Combined Comprehensive Transportation Bond Proceeds Fund	Transportation Related Trust Fund			
Budget	Actual	Variance Favorable (Unfavorable)	Actual	Actual	Actual	Budget	Actual	Variance Favorable (Unfavorable)
\$ 7,402	\$ 7,402	\$ 0	\$	\$	\$	\$ 2,024,694	\$ 2,024,694	\$ 0
293	293	0				75,217	75,217	0
75,039	75,039	0				652,702	652,702	0
12,272	12,272	0				40,891	40,891	0
300	300	0				10,565	10,565	0
						2,122	2,122	0
826	826	0				47,277	47,277	0
\$ 96,131	\$ 96,131	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,853,468	\$ 2,853,468	\$ 0
\$ 6,553	\$ 5,737	\$ 817	\$	\$	\$	\$ 439,756	\$ 402,903	\$ 36,852
						171,472	171,470	2
						1,232,777	1,165,792	66,985
113,844	112,515	1,328				113,844	112,515	1,328
						2,122	2,051	71
\$ 120,397	\$ 118,252	\$ 2,145	\$ 0	\$ 0	\$ 0	\$ 1,959,970	\$ 1,854,731	\$ 105,239
\$	\$	\$	\$	\$	\$	\$ 788,290	\$ 787,491	\$ 799
						66,690	12,209	54,480
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 854,980	\$ 799,700	\$ 55,279
\$ 120,397	\$ 118,252	\$ 2,145	\$ 0	\$ 0	\$ 0	\$ 2,814,950	\$ 2,654,432	\$ 160,518
\$ (24,265)	\$ (22,120)	\$ 2,145	\$ 0	\$ 0	\$ 0	\$ 38,518	\$ 199,036	\$ 160,518
\$	\$	\$	\$	\$	\$	\$ 808,940	\$ 808,940	\$ 0
26,228	26,228	0				175,605	175,605	0
\$ 26,228	\$ 26,228	\$ 0	\$ 0	\$ 0	\$ 0	\$ 984,544	\$ 984,544	\$ 0
\$	\$	\$	\$	\$	\$	\$ 813,014	\$ 808,940	\$ 4,074
655	605	49				282,923	280,483	2,440
						116,001	104,455	11,546
\$ 655	\$ 605	\$ 49	\$ 0	\$ 0	\$ 0	\$ 1,211,938	\$ 1,193,878	\$ 18,060
\$ 25,573	\$ 25,622	\$ 49	\$ 0	\$ 0	\$ 0	\$ (227,393)	\$ (209,334)	\$ 18,060
\$ 1,308	\$ 3,502	\$ 2,194	\$ 0	\$ 0	\$ 0	\$ (188,875)	\$ (10,298)	\$ 178,578
	\$ 1,166		\$ (218,646)	\$ 14,543	\$		\$ 69,341	
							(204,103)	
	\$ 1,166		\$ (218,646)	\$ 14,543	\$ 0		\$ (134,762)	
	\$ 4,668		\$ (218,646)	\$ 14,543	\$ 0		\$ (145,059)	
	13,912		410,171	90,266			1,113,968	
	\$ 18,580		\$ 191,524	\$ 104,809	\$ 0		\$ 968,909	

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Descriptions of Debt Service Funds

COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This Fund was established pursuant to Act 51, P.A. 1951, as amended, to account for debt service on all State Trunkline Fund related bond issues. The bonds are not general obligations of the State of Michigan but are payable solely out of funds restricted as to use for transportation purposes by Article IX, Section 9 of the State Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund. Debt service requirements are funded by annual appropriations in the State Trunkline Fund.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This Fund was established pursuant to Act 51, P.A. 1951, as amended, to account for debt service on all Comprehensive Transportation Fund related bond issues. The bonds are not general obligations of the State of Michigan but are payable solely out of funds restricted as to use for comprehensive transportation purposes by Article IX, Section 9 of the State Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund. Debt service requirements are funded by annual appropriations in the Comprehensive Transportation Fund.

MICHIGAN DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet

Debt Service Funds

As of September 30

(In Thousands)

	Combined State Trunkline Bond and Interest Redemption Fund		Combined Comprehensive Transportation Bond and Interest Redemption Fund		Totals	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
ASSETS						
Current Assets:						
Equity in common cash	\$ 61	\$ 347	\$	\$	\$ 61	\$ 347
Total Assets	<u>\$ 61</u>	<u>\$ 347</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 61</u>	<u>\$ 347</u>
LIABILITIES AND FUND BALANCES						
Current Liabilities:						
Warrants outstanding	\$	\$ 321	\$	\$	\$	\$ 321
Accounts payable and other liabilities	61	26			61	26
Total Liabilities	<u>\$ 61</u>	<u>\$ 347</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 61</u>	<u>\$ 347</u>
Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities and Fund Balances	<u>\$ 61</u>	<u>\$ 347</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 61</u>	<u>\$ 347</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Debt Service Funds
Fiscal Years Ended September 30
(In Thousands)

	Combined State Trunkline Bond and Interest Redemption Fund		Combined Comprehensive Transportation Bond and Interest Redemption Fund		Totals	
	2004	2003	2004	2003	2004	2003
REVENUES						
Interest earnings	\$	\$	\$	\$	\$	\$
Total Revenues	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
EXPENDITURES						
Costs of issuance	\$ 881	\$	\$	\$	\$ 881	\$
Bond principal retirement	23,895	26,220	16,325	11,655	40,220	37,875
Bond interest and fiscal charges	51,291	47,647	13,954	11,975	65,244	59,622
Total Expenditures	\$ 76,066	\$ 73,867	\$ 30,279	\$ 23,630	\$ 106,345	\$ 97,497
Excess of Revenues Over (Under) Expenditures	\$ (76,066)	\$ (73,867)	\$ (30,278)	\$ (23,630)	\$ (106,345)	\$ (97,497)
OTHER FINANCING SOURCES						
Proceeds from refunding bond issues	\$ 103,450	\$	\$	\$	\$ 103,450	\$
Premium on bonds issued	9,736				9,736	
Transfer from State Trunkline Fund	75,186	73,867			75,186	73,867
Transfer from Comprehensive Transportation Fund			30,279	23,630	30,279	23,630
Total Other Financing Sources	\$ 188,371	\$ 73,867	\$ 30,279	\$ 23,630	\$ 218,650	\$ 97,497
OTHER FINANCING USES						
Transfer to Department of Treasury for operations	\$	\$	\$	\$	\$	\$
Payment to refunded bond escrow agent	112,305				112,305	
Total Other Financing Uses	\$ 112,305	\$ 0	\$ 0	\$ 0	\$ 112,305	\$ 0
Excess of Other Financing Sources Over (Under) Other Financing Uses	\$ 76,066	\$ 73,867	\$ 30,278	\$ 23,630	\$ 106,345	\$ 97,497
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Fund Balances - Beginning of fiscal year						
Fund Balances - End of fiscal year	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Economic Development Fund
Fiscal Years Ended September 30
(In Thousands)

	<u>2004</u>	<u>2003</u>
REVENUES AND OTHER SOURCES		
Licenses and permits	\$ 13,607	\$ 12,953
Federal aid	36,535	42,100
Local participation	14,700	14,639
Interest earnings	1,491	1,628
Transfers - Michigan Transportation Fund	40,275	40,275
Transfers - Other		143
Miscellaneous		129
Total Revenues and Other Sources	<u>\$ 106,607</u>	<u>\$ 111,868</u>
EXPENDITURES AND OTHER USES		
Administration	\$ 536	\$ 706
Forest roads	5,029	5,008
Target industries - State takeovers	27,899	10,350
Rural county urban system	4,145	3,497
Urban county congestion	34,416	32,742
Rural county primary	34,742	39,142
Debt service	14,761	10,954
Total Expenditures and Other Uses	<u>\$ 121,527</u>	<u>\$ 102,399</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (14,920)	\$ 9,469
Fund Balances - Beginning of fiscal year	101,584	92,115
Fund Balances - End of fiscal year	<u>\$ 86,664</u>	<u>\$ 101,584</u>

The Economic Development Fund was created as a subfund of the State Trunkline Fund during fiscal year 1987-88. The amounts shown in this schedule have been reported as part of the State Trunkline Fund in previous statements of this report. This supplemental schedule was prepared to provide additional information pertaining specifically to the Economic Development Fund.

Revenues are derived from the Michigan Transportation Fund, increased motor vehicle fee income, federal funds for expenditures eligible for matching, local matching funds which are not less than 25% for each project, and interest earnings. The Economic Development Fund money is expended for the purpose of enhancing the State's ability to compete in an international economy, serving as a catalyst for the economic growth of the State, and improving the quality of life in the rural and urban areas of the State.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Blue Water Bridge Fund
Fiscal Years Ended September 30
(In Thousands)

	<u>2004</u>	<u>2003</u>
REVENUES AND OTHER SOURCES		
Interest earnings	\$ 249	\$ 243
Miscellaneous	13,706	12,011
Grants and transfers from other funds	35	
Total Revenues and Other Sources	<u>\$ 13,989</u>	<u>\$ 12,254</u>
EXPENDITURES AND OTHER USES		
Administration and maintenance	\$ 4,886	\$ 4,399
Roads and bridges	29	2,204
Grants and transfers to other funds	3	3
Debt service	2,504	2,264
Total Expenditures and Other Uses	<u>\$ 7,421</u>	<u>\$ 8,869</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 6,568	\$ 3,385
Fund Balances - Beginning of fiscal year	<u>(10,650)</u>	<u>(14,034)</u>
Fund Balances - End of fiscal year	<u><u>\$ (4,081)</u></u>	<u><u>\$ (10,650)</u></u>

The Blue Water Bridge Fund was created as a subfund of the State Trunkline Fund during fiscal year 1993-94. The amounts shown in this schedule have been reported as part of the State Trunkline Fund in previous statements of this report. This supplemental schedule was prepared to provide additional information pertaining specifically to the Blue Water Bridge Fund.

Through provisions of Section 1012 of the federal Intermodal Surface Transportation Efficiency Act of 1991, the State Trunkline Fund received federal funds to be loaned to the Blue Water Bridge Fund for construction of the Blue Water Bridge Project. Repayment of the \$45 million loan began in July 2002. The term of the loan will not exceed 30 years from the time that the loan was obligated.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Debt Service Requirements on Outstanding Bonds
State Trunkline Fund and Comprehensive Transportation Fund
September 30, 2004
(In Thousands)

Fiscal Years Ending September 30	State Trunkline Fund			Comprehensive Transportation Fund			Combined Totals		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 28,925	\$ 47,749	\$ 76,674	\$ 17,790	\$ 13,376	\$ 31,166	\$ 46,715	\$ 61,125	\$ 107,840
2006	29,835	47,075	76,910	19,155	12,457	31,612	48,990	59,532	108,522
2007	30,385	46,473	76,858	20,075	11,538	31,613	50,460	58,011	108,471
2008	42,970	45,812	88,782	21,170	10,493	31,663	64,140	56,305	120,445
2009	44,150	44,618	88,768	22,215	9,452	31,667	66,365	54,070	120,435
2010	45,515	43,252	88,767	23,445	8,218	31,663	68,960	51,470	120,430
2011	47,115	41,669	88,784	24,655	7,004	31,659	71,770	48,673	120,443
2012	48,815	39,975	88,790	12,195	6,016	18,211	61,010	45,991	107,001
2013	50,625	38,153	88,778	12,790	5,394	18,184	63,415	43,547	106,962
2014	52,915	35,863	88,778	13,435	4,736	18,171	66,350	40,599	106,949
2015	55,710	33,073	88,783	8,170	4,045	12,215	63,880	37,118	100,998
2016	58,685	30,093	88,778	8,580	3,631	12,211	67,265	33,724	100,989
2017	61,805	26,972	88,777	9,020	3,196	12,216	70,825	30,168	100,993
2018	65,115	23,659	88,774	9,470	2,738	12,208	74,585	26,396	100,981
2019	68,610	20,164	88,774	9,950	2,257	12,207	78,560	22,421	100,981
2020	51,270	16,618	67,888	10,470	1,742	12,212	61,740	18,360	80,100
2021	53,860	14,040	67,900	11,010	1,206	12,216	64,870	15,246	80,116
2022	56,625	11,271	67,896	11,570	642	12,212	68,195	11,914	80,109
2023	25,335	9,197	34,532	2,490	118	2,608	27,825	9,315	37,140
2024	26,645	7,897	34,542				26,645	7,897	34,542
2025	28,010	6,531	34,541				28,010	6,531	34,541
2026	18,785	5,361	24,146				18,785	5,361	24,146
2027	19,770	4,377	24,147				19,770	4,377	24,147
2028	16,970	3,417	20,387				16,970	3,417	20,387
2029	17,885	2,502	20,387				17,885	2,502	20,387
2030	18,850	1,538	20,388				18,850	1,538	20,388
2031	19,870	522	20,392				19,870	522	20,392
Total	<u>\$1,085,050</u>	<u>\$647,871</u>	<u>\$1,732,921</u>	<u>\$267,655</u>	<u>\$108,258</u>	<u>\$375,913</u>	<u>\$1,352,705</u>	<u>\$756,129</u>	<u>\$2,108,834</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Debt Service Requirements on Outstanding Notes
State Trunkline Fund and Comprehensive Transportation Fund
September 30, 2004
(In Thousands)

Fiscal Years Ending September 30	State Trunkline Fund			Comprehensive Transportation Fund			Combined Totals		
	Principal	Interest*	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 20,000	\$ 24,000	\$ 44,000	\$	\$	\$	\$ 20,000	\$ 24,000	\$ 44,000
2006	80,000	23,200	103,200				80,000	23,200	103,200
2007	140,000	20,000	160,000				140,000	20,000	160,000
2008	160,000	14,400	174,400				160,000	14,400	174,400
2009	200,000	8,000	208,000				200,000	8,000	208,000
Total	<u>\$ 600,000</u>	<u>\$ 89,600</u>	<u>\$ 689,600</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 600,000</u>	<u>\$ 89,600</u>	<u>\$ 689,600</u>

* Interest payments are estimated at 4%.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2002 through September 30, 2004
(In Thousands)

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003 (3)		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Transportation</u>					
Direct Programs:					
Airport Improvement Program	20.106		\$ 50,674	\$ 24,281	\$ 74,955
Highway Planning and Construction	20.205		726,372	39,751	766,123
High Speed Ground Transportation: Next Generation High Speed Rail Program	20.312		2,426		2,426
Federal Transit: Capital Investment Grants	20.500		231	9,347	9,578
Federal Transit: Metropolitan Planning Grants	20.505			1,814	1,814
Formula Grants for Other Than Urbanized Areas	20.509		1,759	8,711	10,470
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		134	1,943	2,077
State Planning and Research	20.515		(10)	308	298
Job Access: Reverse Commute	20.516		(63)	657	594
Total Direct Programs			\$ 781,523	\$ 86,812	\$ 868,335
Pass-Through Program:					
Michigan Department of State Police					
National Motor Carrier Safety	20.218	97-0066	114		114
Total U.S. Department of Transportation			\$ 781,637	\$ 86,812	\$ 868,449
Total Expenditures of Federal Awards			\$ 781,637	\$ 86,812	\$ 868,449

(1) Basis of Presentation: This schedule includes the federal grant activity of the Michigan Department of Transportation (MDOT) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) MDOT revised its method for reporting accrued expenditures. Previously, all accrued expenditures were reported as directly expended by MDOT. Beginning in fiscal year 2003-04, MDOT determined whether accrued expenditures should be reported as directly expended or distributed to subrecipients on an individual project basis. The amounts reported for the fiscal year ended September 30, 2003 were not restated to reflect this change.

For the Fiscal Year Ended September 30, 2004			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 56,996	\$ 51,433	\$ 108,429	\$ 183,384
770,229	39,704	809,933	1,576,056
949		949	3,375
185	14,618	14,803	24,381
4	1,865	1,869	3,683
987	9,521	10,508	20,978
	2,677	2,677	4,754
98	298	396	694
	265	265	859
\$ 829,448	\$ 120,381	\$ 949,829	\$ 1,818,164
115		115	229
\$ 829,563	\$ 120,381	\$ 949,944	\$ 1,818,393
<u>\$ 829,563</u>	<u>\$ 120,381</u>	<u>\$ 949,944</u>	<u>\$ 1,818,393</u>

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INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Ms. Gloria J. Jeff, Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

We have audited the financial statements of the Michigan Department of Transportation as of and for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents, and have issued our report thereon dated March 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

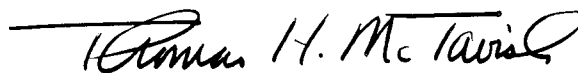
In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State Transportation Commission, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the start of the name.

Thomas H. McTavish, C.P.A.
Auditor General
March 31, 2005



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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LANSING, MICHIGAN 48913
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Ms. Gloria J. Jeff, Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

Compliance

We have audited the compliance of the Michigan Department of Transportation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2004. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Michigan Department of Transportation complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each major federal program for the two-year period ended September 30, 2004. However, the results

of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

Internal Control Over Compliance

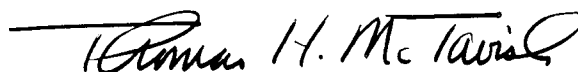
The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that neither of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State Transportation Commission, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the left side of the name.

Thomas H. McTavish, C.P.A.
Auditor General
March 31, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	None reported
Noncompliance or other matters material to the financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

CFDA Number	Name of Federal Program
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
20.500	Federal Transit: Capital Investment Grants
20.509	Formula Grants for Other Than Urbanized Areas

* See glossary at end of report for definition.

Dollar threshold used to distinguish between type A and type B programs: \$5,455,179

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Statements

We did not report any findings related to the financial statements.

The status of the findings related to the financial statements that were reported in prior Single Audits* is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING 590501

1. Federal Highway Administration (FHWA) Approvals

U.S. Department of Transportation	CFDA 20.205: Highway Planning and Construction
Award Number: Not Known	Award Periods: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

The Michigan Department of Transportation (MDOT) needs to improve its internal control over obtaining and documenting FHWA approvals to ensure compliance with federal requirements regarding allowable costs/cost principles.

For highway construction projects, contract modifications are used to address contractual issues such as increases or decreases, extras* and adjustments, contract completion time, and other miscellaneous changes to the contract. FHWA required MDOT to obtain FHWA approval on federal-aid projects that had federal oversight on any contract modifications for an individual extra item resulting in adjustments to the contract of \$50,000 or more.

* See glossary at end of report for definition.

MDOT's process to ensure that the required FHWA approvals are received for applicable projects is to include the contract modification forms, signed by FHWA, in the project files. However, this process does not appear to always be effective in ensuring compliance with the federal requirements.

We selected 46 construction projects to evaluate the application of the control and to determine MDOT's compliance with federal requirements. Federal requirements applicable to each project were based on the type of work being done, the type of road, and the amount of the project.

MDOT did not have written documentation of FHWA approval for one or more contract modifications for 3 (23%) of the 13 projects in which approval was required. The total amount of extras that required FHWA approval for the 3 projects totaled \$938,299, for which MDOT had paid its contractors \$823,335 as of September 30, 2004. The federal portion of these costs totaled \$673,899.

Subsequent to our audit fieldwork, MDOT obtained documentation of FHWA approval for these extras through FHWA signatures on the contract modification forms.

RECOMMENDATION

We recommend that MDOT improve its internal control over obtaining and documenting FHWA approvals to ensure compliance with federal requirements regarding allowable costs/cost principles.

FINDING 590502

2. Payroll Time Reporting

U.S. Department of Transportation	CFDA 20.205: Highway Planning and Construction
Award Number: Not Known	Award Periods: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: \$0

MDOT internal control over payroll time reporting did not ensure compliance with federal time reporting requirements.

MDOT charged employee salaries and wages of \$71.3 million and \$62.3 million in fiscal years 2003-04 and 2002-03, respectively, to FHWA-funded projects. OMB Circular A-87, Attachment B, Section 8 requires that employee salaries and wages charged to federal awards be supported by time sheets signed by the employees to reflect the actual activity of the employees.

MDOT procedures require supervisory review and approval of employees' time. However, these controls did not always ensure that time sheets were signed by the employees.

MDOT allows its employees the option of either preparing a hard copy time sheet to be entered by another employee into the Data Collection and Distribution System* (DCDS) or submitting their own time worked directly into DCDS. We reviewed the record of time worked for 26 employees from a sample of 26 construction projects that had MDOT payroll costs reimbursed by FHWA. In 11 instances, the employee prepared a hard copy time sheet. MDOT did not have required signatures for 3 (27%) of the 11 hard copy time sheets tested. Total payroll costs reimbursed by FHWA for these 3 employees for their applicable two-week payroll periods were \$5,870. After we brought these exceptions to the attention of MDOT, it acquired the required time sheet signatures. We noted no exceptions relating to the 15 instances in our sample in which the employee submitted his/her own time worked directly into DCDS.

RECOMMENDATION

WE AGAIN RECOMMEND THAT MDOT STRENGTHEN ITS INTERNAL CONTROL OVER PAYROLL TIME REPORTING TO ENSURE COMPLIANCE WITH FEDERAL TIME REPORTING REQUIREMENTS.

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

** See glossary at end of report for definition.*

OTHER SCHEDULES

MICHIGAN DEPARTMENT OF TRANSPORTATION

Summary Schedule of Prior Audit Findings

As of September 30, 2004

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 590301

Finding Title: Internal Control Over Accounting Practices

Finding: The Michigan Department of Transportation (MDOT) needs to strengthen its internal control over accounting practices to ensure appropriate, complete, and accurate financial information.

Comments: Beginning with the fiscal year 2001-02 Annual Financial Report, MDOT footnotes capital assets and long-term liabilities information in its financial reports.

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 590302

Finding Title: Recording of Accounts Payable

Finding: MDOT needs to strengthen its internal control over recording accounts payable.

Comments: Fiscal year 2001-02 was the first year the State of Michigan accelerated its year-end closing process; therefore, new accounts payable processes/procedures had to be created to meet the earlier deadlines. Through experience and training, MDOT continues to strengthen its processes related to payables. MDOT did not receive any audit citations related to payables during the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* fiscal year 2002-03 audit.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 590303
Finding Title: Data Collection and Distribution System (DCDS) User Access and Functions

Finding: MDOT needs to improve its internal control over monitoring DCDS user access and functions.

Comments: MDOT has taken steps to strengthen its internal control over DCDS user access and functions. On August 29, 2003, MDOT's Office of Human Resources sent a memorandum requiring that DCDS security form 989 be completed and sent to the Office when requesting or deleting roles in DCDS. All access rights since October 1, 2003 have been documented with an authorized security form. Beginning in January 2004, the data security administrator will annually audit/review employee access rights in DCDS by sampling 10% of the users and comparing the information against authorization forms, memorandums, and e-mails on file.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 590304
Finding Title: Documentation of Materials Testing

Finding: MDOT did not have internal control to ensure that it documented compliance with federal quality assurance procedures for construction.

Comments: MDOT developed a revised retention schedule that was accepted by the federal government per its May 18, 2004 letter to MDOT. MDOT provided to the federal government support for \$10,515 of the \$38,000 questioned costs. The federal share of the

remaining money was returned to the federal government in October 2004. MDOT also provided status update letters to the federal government on June 25, 2004 and October 15, 2004. The federal government considers this finding resolved per its November 2, 2004 letter.

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 590307

Finding Title: Cash Management

Finding: MDOT did not have internal control in place to ensure that it met federal cash management requirements for the Federal Transit Administration (FTA) Metropolitan Planning Grants.

Comments: MDOT strengthened its controls by entering the payment voucher information into the Michigan Administrative Information Network* (MAIN) the same day that the FTA draw is requested. The payment vouchers were released in MAIN within two days of the FTA draw to ensure that MDOT meets the FTA Metropolitan Planning program federal cash management requirements.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 590305

Finding Title: Subrecipient Monitoring

Finding: MDOT needs to strengthen its procedures regarding the monitoring of its Federal Highway Administration (FHWA) and FTA subrecipients in accordance with federal requirements.

Comments: Meetings were held among program areas, the Office of Commission Audits (OCA), and the Financial Operations Division to ensure compliance with the audit recommendation. As a result

* See glossary at end of report for definition.

of those meetings, the following has occurred or will occur before December 31, 2004:

- a. Expenditures directly expended and expenditures distributed to subrecipients included in the schedule of expenditures of federal awards will be based on the revised definition of a subrecipient.
- b. MDOT now includes the *Catalog of Federal Domestic Assistance (CFDA)* title and number in the contracts with the subrecipients.
- c. The Construction and Technology Support Area is currently revising its instructions to better define the process used by MDOT to monitor subrecipient compliance with FHWA regulations. The final version is expected to be issued by MDOT on or before December 31, 2004.
- d. Program areas responsible for the FTA programs are revising their procedures to ensure that Single Audits are obtained; timely requests are made to OCA; and an understanding is gained regarding OCA's scope of the program project audits. Because of a decrease in staff, these procedures will not be completed until December 31, 2004.

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 590306

Finding Title: Payroll Time Reporting

Finding: MDOT internal control over payroll time reporting did not ensure the retention of time sheets signed by the employees.

Comments: On June 30, 2003, the Office of Human Resources sent a memorandum to all MDOT employees defining time and attendance reporting procedures. The federal government was provided a copy of the memorandum and considers this finding resolved per its November 2, 2004 letter to MDOT.

MICHIGAN DEPARTMENT OF TRANSPORTATION

Corrective Action Plan

As of May 25, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There were no findings related to the financial statements for fiscal years 2002-03 and 2003-04.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 590501

Finding Title: Federal Highway Administration (FHWA) Approvals

Management Views: The Michigan Department of Transportation (MDOT) concurs. Federal Highway Administration (FHWA) written approval was not included in the project folders for six contract modifications related to three projects cited by the Office of the Auditor General.

Corrective Action: MDOT subsequently received proper FHWA approvals on all six contract modifications. MDOT will strengthen its internal control to ensure compliance with federal regulations by sending a construction advisory to all MDOT construction staff and local agency construction staff reminding them that the federal exemption status should be reviewed and confirmed when processing contract modifications according to existing procedures. MDOT will continue to ensure compliance with its procedures by discussing the importance of following procedures with field staff to ensure that contract modifications are processed with the appropriate federal approvals.

Anticipated Completion Date: April 1, 2006

Responsible Individual: Brenda O'Brien, Administrator, Construction and Technology Support Area

Finding Number: 590502

Finding Title: Payroll Time Reporting

Management Views: MDOT concurs. The auditors reviewed 11 hard copy time sheets, of which 3 did not have signatures.

Corrective Action: MDOT subsequently obtained signatures on the 3 time sheets. MDOT strengthened its controls by sending a memorandum on June 30, 2004 to all MDOT employees stating acceptable methods for payroll time submission. MDOT will continue to ensure compliance with that memorandum by discussing the importance of adhering to procedures with managers to ensure that time reporting is completed in accordance with the memorandum and by sampling time sheets to ensure that proper signatures are maintained.

Anticipated Completion Date: September 30, 2005

Responsible Individual: Edward A. Timpf, Administrator, Financial Operations Division

GLOSSARY

Glossary of Acronyms and Terms

accreted values	When a bond is issued at a deep discount, accreted values of bonds include the bond issuance price plus the incremental increase in the value of the bond as it approaches redemption at face value.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
Data Collection and Distribution System (DCDS)	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system for the MAIN Human Resource System.
extra	Work that did not appear in the proposal as a specific item and was not included in the price bid for other items in the contract, but it was essential to the satisfactory completion of the contract.
FHWA	Federal Highway Administration.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
FTA	Federal Transit Administration.
GAAP	accounting principles generally accepted in the United States of America.
GASB	Governmental Accounting Standards Board.
IBA	International Bridge Administration.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial

reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

JIBA

Joint International Bridge Authority.

low-risk auditee

As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material misstatement

A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.

material
noncompliance

Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.

material weakness

A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MDOT

Michigan Department of Transportation.

Michigan Administrative Information Network (MAIN)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
OCA	Office of Commission Audits.
OMB	U.S. Office of Management and Budget.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial

report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SMRBC	St. Mary's River Bridge Company.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ul style="list-style-type: none">a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; orb. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

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